THE CITY OF EDINBURGH COUNCIL

Item no 14
Report no

Strategic Spending Review 2012/13 - 2014/15

Finance and Resources Committee

1 November 2011

1 Purpose of report

1.1 This report provides a summary of the key points of the Cabinet Secretary's announcement on the Strategic Spending Review and also presents an initial estimate of the revised savings requirement for the Council.

2 Summary

2.1 The Strategic Spending Review provides, at sector level, firm allocations for 2012/13 and spending plans for the following two years. For local government revenue funding this indicates a headline position of no increase in grant funding for the next three years (i.e. no change relative to the actual cash allocation in 2011/12). Councils are, however, in effect being asked to find additional sums from within this "flat-cash" Settlement to meet various Scottish Government priorities.

2.2 The Government has re-affirmed its commitment to providing each Council with no less than 85% of the average per capita revenue grant funding.

2.3 For capital, a reduction in grant funding in line with the overall decrease in the Scottish Budget (i.e. an underlying cash-terms fall of around 7% over the period from 2012/13 to 2014/15) has been intimated, although the payment of grant will also be re-profiled towards later years, with local authorities encouraged to supplement the reduced level of external funding with additional borrowing in 2012/13 and 2013/14.

2.4 An initial estimate of the impact of the Spending Review and other budget pressures is attached to the report. Although work is ongoing to determine the impact and much will depend upon decisions taken over the coming months, there is potential for the revenue budget gap to increase to some £23m in 2012/13; £57m by 2013/14; and £98m by 2014/15, on a cumulative basis, if all of the pressures currently identified come to pass.

2.5 There are currently no further savings agreed to meet this gap although the Council may derive some benefit from the 85% funding commitment on grant distribution. The financial impact of this commitment on individual councils' allocations will not be known until early December.

3 Main report

3.1 Revenue Settlement - As highlighted above, no net change relative to 2011/12 has been indicated in the level of funding provided over the period 2012/13 to 2014/15. It should be noted, however, that the sums given relate to local government as a whole and not individual authorities, with this further detail to be announced in early December. In interpreting the potential implications of the level of Settlement, the following accompanying factors need to be considered:

- **Continuation of Council Tax freeze policy** over the period 2012/13 to 2014/15 inclusive;
- Commitments on **police and teacher numbers**;
- **Contribution to Change Funds -** for Scotland as a whole it is anticipated that Councils will be encouraged to contribute a total of around £175m over the three- year period across the existing Health Change and newly-created Early Years Change Funds;
- **Additional Borrowing -** Councils will furthermore be encouraged to supplement the level of capital grant funding provided by the Scottish Government in 2012/13 and 2013/14 with additional borrowing in those years.

3.2 The Scottish Government has indicated that a financial sanction will be applied should either or both of the first two commitments above not be agreed at local authority level. While no specific sums have been mentioned with regard to police and teacher numbers, the sanction in respect of the Council Tax freeze is likely to be in line with previous years' allocations i.e. around £7 million per annum for this council.

3.3 Subsequent to the Scottish Spending Review the UK Government announced additional funding to enable Council Tax in England to be frozen at 2011/12 levels. As a result, there are favourable Barnett consequentials of £67.5m for Scotland of this decision. Under the devolution arrangements the Scottish Government has discretion as to how these funds are deployed. COSLA has written to the Cabinet Secretary for Finance and Sustainable Growth to seek to clarify his intentions in this regard.

3.4 The Cabinet Secretary's announcement further indicated that it is the Scottish Government's intention, should the decision of the UK Government not be reversed, to pass on increases in employee pension contribution rates to members of the teacher, police and fire schemes. The decision as to whether to pass on the equivalent increases to members of the Local Government Pension Schemes rests with those (elected members) managing the scheme and, as a result, in accordance with the agreed COSLA Leaders' position that any increase should not be supported, will not be implemented. The combined effect of these decisions is that there will not, at this stage, therefore be any impact on the Council's Long-Term Financial Plan. This does not supersede, however, more general on-going discussions of "cost-sharing" examining the relative balance between employee and employer contributions carried over from the last review of the LGPS.

3.5 The Government has re-affirmed its commitment to provide each council with no less than 85% of the average per capita revenue grant funding. Further clarification is required as to how this will be incorporated within individual authorities' allocations. The calculation can only be done once the full grant distribution formula is calculated which will be in December. If this commitment had been in place in the current year it would have increased Edinburgh's grant by around £22m. The only other beneficiary would have been Aberdeen City. The Spending Review has made a total provision of £25m for the commitment. It should be noted that the new Spending Review will be using updated indicators which could result in a different distribution.

3.6 Capital resources - The Scottish Government has outlined four key themes underpinning the capital programme over the Settlement period: (i) "joint agreement" of spending priorities between central and local government, (ii) the re-profiling of grant funding, (iii) the implementation of measures to ensure, as far as possible, that all capital resources are spent in-year and (iv) targeted investment in flood prevention.

3.7 The Cabinet Secretary's announcement indicated an overall reduction in capital resources for local government consistent with the underlying decrease applying to the public sector as a whole. Within this overall position, however, grant funding will be re-profiled, with a reduction in sums payable across local government in Scotland in 2012/13 (£120m) and 2013/14 (£100m) offset by compensating payments in the two following years. The Scottish Government is encouraging individual local authorities to use their prudential borrowing powers to supplement the reduced level of capital grant funding being provided in 2012/13 and 2013/14, although it should be noted that this will result in increased loan charge liabilities for councils. It is also worth emphasising that reinstatement of the latter part of the grant funding allocation in 2015/16 (i.e. beyond the current Settlement period) will entail additional risks.

3.8 The attached appendix provides an initial estimate of the impact on the next four years of the long-term financial plan. The opportunity has been taken at this point to include other factors which have come to light recently and which will create pressure on this budget. Whilst not everything in the appendix will definitely materialise, the financial impact is significant and needs to be given serious consideration. The LTFP position as agreed in the Council Budget in February 2011 has been updated for the following:

a) External changes (i.e. national decisions)

b) Spending Review changes

c) Council Decisions already made

d) Other changes (i.e. estimated costs of known pressures)

3.9 It is imperative that the Council now starts to prepare for this potential funding gap. Arrangements are already in place to deliver the approved savings from the budget over this year and the next two years. The 85% distribution commitment may also help to close the gap but that will not be known until December.

4 Financial Implications

4.1 An initial estimate of the revised savings requirement has been prepared based on the Strategic Spending Review announcement and other relevant factors. This produces a cumulative funding gap of £23m in 2012/13 rising to £98m by 2014/15. This could be offset in part by additional savings from the ABM programme and a more favourable grant distribution for Edinburgh arising from the 85% funding commitment.

5 Equalities Impact

5.1 There are no equalities impacts relating to this report.

6 Environmental Impact

6.1 There are no environmental impacts relating to this report.

7 Conclusions

7.1 An initial estimate of the combined impact of the level of funding intimated in the Spending Review, associated factors listed in 3.1 above and other pressures affecting the Council's budget over the period from 2012/13 to 2015/16, is shown in Appendix 1. Taken together, the impact of these factors relative to long-term financial plan assumptions is substantial.

8 Recommendations

8.1 The Finance and Resources Committee is asked to:

- note the potential impact of the Spending Review and other external factors on the next three years of the Council's budget;
- note that this is a work in progress and that action will be required to offset each of the pressures identified;
- agree that any additional savings resulting from Council's decision on the outcome of the ABM process will be factored into the plan once confirmed;
- note that Directors have been instructed to review their current savings plans to identify any approved savings which can be escalated or brought forward from 2013/14;
- note that Directors have been instructed to identify the key spending or income areas where further savings could be considered;

- note that the Corporate Asset Management Group has been instructed to report back on the implications for the capital programme.

Karen Kelly
Acting Director of Finance

Appendices	1 Initial estimate of revised savings requirement, 2012/13 to 2014/15
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Wards affected	All
Single Outcome Agreement	
Background Papers	

APPENDIX 1

INITIAL ESTIMATE OF REVISED SAVINGS REQUIREMENT, 2012/13 TO 2014/15

NB In the following analysis, figures are shown on an absolute, as opposed to incremental, basis.

	2012/13 £000	2013/14 £000	2014/15 £000	Notes
Projected gap/(surplus) per February 2011 Budget Motion	(2,264)	13,082	42,097	
Confirmed and/or potential budget pressures:				
External Changes				
National Insurance - full loss of employer's existing contracted-out rebate in line with prospective changes to State Pension	1,070	7,135	13,200	Reflects confirmed reduction in rebate of 0.3% from April 2012 and assumes phasing-out of remaining 3.4% equally across 2013/14 and 2014/15. DWP consulting on the phasing of this change.
Teachers' class contact time - non-realisation of previously-assumed saving	4,106	6,160	6,160	McCormac Review contains recommendation that existing levels of contact time be maintained; without compensating funding this will prevent realisation of assumed saving contained in February 2011 Budget Motion.
Welfare Reform - pro-rated share of expected £50m. Scotland-wide reduction in Council Tax Benefit	0	3,500	3,500	A further risk exists with regard to other potential impacts upon the Council of changes in this area, particularly in respect of increased demand on services. Figure shown represents CEC's share of £50m nationally. Changes in Housing Benefits may partially offset this cost.
Spending Review Changes				
Change in estimated level of Government Grant funding relative to LTFP	6,996	7,587	8,563	Revised projection based on no change (relative to 2011/12) in level of revenue grant funding from 2012/13 to 2014/15 inclusive. Sums shown include Council Tax Freeze compensation for each year.
Assumed required contributions to **existing Health Change and newly-created Early Years Funds**	3,120	4,290	6,240	Sums based on estimated Local Government contributions of £40m/£55m/£80m across period from 2012/13 to 2014/15 - Scotland-wide level of provision (and continuation beyond 2014/15) to be confirmed.
Additional borrowing costs as a result of re-profiling payment of capital grant	316	1,223	1,444	Represents Edinburgh's proportionate share of supporting Scotland-wide re-profiling of General Capital Grant of £120m. in 2012/13 and £100m. in 2013/14, with grant amounts then to be reinstated in 2014/15 and 2015/16
Council decisions already made				
Edinburgh Trams project - net additional funding requirement	5,260	7,700	8,386	Long-term annual net cost of £4.7m. Higher cost in initial years due to phasing-in of funding streams once Trams are operational.
Other				
Gaelic-Medium Education - additional budgetary provision	103	380	519	Report to be considered by Council in October 2011
Electricity and gas - projected increase in tariffs	1,500	1,500	1,500	
Winter Maintenance - additional budgetary provision	500	500	500	Based on additional costs of Committee's approval of "Tiers" 1 and 2 per report to P&S, 6/9/2011
Change in **general non-pay inflationary assumption** to 2.7% p.a.	1,750	3,582	5,500	Revised provision from 2% per annum in line with relevant CPPR projections
Revised LTFP position	**22,457**	**56,639**	**97,609**	
	22,457	34,182	40,970	Incremental Annual Funding Gap

APPENDIX 1

Other potential issues for consideration:

(i) Additional costs relative to current provision for treatment in line with **remodelled business case for residual waste**.

(ii) The potential implications of a cut in overall funding for **concessionary fares and bus services** are being investigated.

(iii) The Scottish Government's 2011 election manifesto **contained a commitment that no local authority would receive less than 85% of the per capita average revenue grant for Scotland as a whole**. While the Scottish Government has not yet indicated how this commitment will be effected, initial analysis suggests that Edinburgh would be a beneficiary of such a policy. Any monies provided through this channel would be in addition to the overall flat-cash Settlement. This similarly applies to the £24 million provided to maintain teacher employment, Edinburgh's anticipated share of which would be around £1.5 million - this sum represents the full-year effect of monies initially provided in 2011/12 to reflect the finally-agreed changes to teachers' terms and conditions.

(iv) Since the Spending Review announcement was made in the Scottish Parliament on September 21st, the UK Government has provided sufficient funding to enable Council Tax in England for 2012/13 to be frozen at 2011/12 levels. As a result, there are favourable Barnett Consequentials for Scotland of £67.5m resulting from this decision. Under the devolution arrangements, however, the Scottish Government has discretion as to how these funds are deployed.