

FALKIRK COUNCIL

Subject: SPENDING REVIEW 2011
Meeting: FALKIRK COUNCIL
Date: 5 October 2011
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 The Scottish Government published the 2011 Spending Review on 21 September. The Review sets out spending plans for the three years from 2012/13 to 2014/15. This paper seeks to describe the key elements and assess the impact for local government.

2. KEY ELEMENTS

- 2.1 The document is very lengthy containing around 250 pages, however, the key measures are described below:

- Prioritise capital investment to assist economic recovery and economic growth
- Invest in promoting a low-carbon economy
- Pension contributions from NHS, Teachers, Police & Fire staff to be increased
- Pursue pay restraint with public sector pay to be frozen for a further year (2012/13), other than for employees earning less than £21,000 for areas under direct control
- Freeze the council tax
- Maintain teacher numbers
- Maintain grant for the Police service
- Pursue a programme of efficiency and public sector reform
- Move towards preventative spend

3. SUMMARY OF SPENDING PLANS

- 3.1 The total amount of planned spending by the Scottish Government comprises two parts:-

- Departmental Expenditure Limit (DEL) – this forms the majority of the budget and represents the budget that the Scottish Government can plan and control over the Spending Review period. DEL is sub-divided into Resource (Revenue) and Capital. DEL amounts to £28,259.8m for 2012/13. This amount was announced as part of the UK Government Spending Review in October 2010.
- Annually Managed Expenditure (AME) – this element of the budget is set each year and relates to expenditure that is not readily predictable e.g. NHS and Teachers pensions. This amounts to £5,698.6m for 2012/13.

- 3.2 The aggregate value of DEL and AME is described as Total Managed Expenditure (TME) and the undernoted table provides a summary by Ministerial portfolio:-

Total Managed Expenditure by Ministerial Portfolio

	2011/12 Budget £m	2012/13 Draft Budget £m	2013/14 Plans £m	2014/15 Plans £m
Health, Wellbeing & Cities Strategy	11,466.3	11,687.9	11,966.8	12,184.4
Finance, Employment & Sustainable Growth	3,698.3	3,684.2	3,841.4	4,016.2
Education and Lifelong Learning	2,604.2	2,669.9	2,858.9	2,961.3
Justice*	1,264.3	1,344.1	1,294.8	1,243.9
Rural Affairs & the Environment	540.6	530.9	511.5	513.5
Culture & External Affairs	245.6	237.8	232.5	221.4
Infrastructure & Capital Investment	2,126.1	2,225.0	2,300.3	2,387.8
Administration	236.0	214.7	202.6	193.5
Parliamentary Business & Government Strategy	8.2	6.5	6.3	6.0
Crown Office & Procurator Fiscal Service	108.2	108.1	108.1	108.7
Local Government	11,226.0	11,153.8	11,108.1	11,350.5
Total Scottish Government	33,523.8	33,862.9	34,431.3	35,187.2
Scottish Parliament and Audit Scotland	95.9	95.5	95.5	95.5
Total	33,619.7	33,958.4	34,526.8	35,282.7

* Includes Police & Fire Pensions

Source: Scottish Spending Review 2011 and Draft Budget 2012-13

The total for 2012/13 of £33,958.4m represents an increase of 1% over the current level. Plans for the two years beyond 2012/13 indicate increases of 1.67% and 2.19% respectively.

4. IMPACT ON LOCAL GOVERNMENT

- 4.1 The amounts allocated to Local Government are £11,153.8m/£11,108.1m/£11,350.5m over the next three years. Local Government's share represents 32.94% of Total Scottish Government spending in 2012/13, a reduction from 33.49% in the current year. Local Government's share of TME for 2013/14 and 2014/15 is expected to further reduce to 32.26% in each year.
- 4.2 The following table provides further detail on the composition of total funding for Local Government.

Detailed Spending Plans

	2011/12 Draft Budget £'m	2012/13 Draft Budget £'m	2013/14 Plans £'m	2014/15 Plans £'m
General Resource Grant	7,754.8	7,747.6	7,575.6	7,346.6
Non-Domestic Rates (NDR) and other AME Grants	2,179.5	2,272.0	2,444.0	2,673.0
Support for Capital	520.9	563.0	517.3	759.7
Specific Resource Grants *	599.9	571.2	571.2	571.2
Specific Capital Grants *	170.9	0.0	0.0	0.0
Total Local Government portfolio	11,226.0	11,153.8	11,108.1	11,350.5
Other Local Government *	322.0	323.9	333.8	351.8
Total Local Government Level 3	11,548.0	11,477.7	11,441.9	11,702.3
of which:				
DEL Resource	8,354.7	8,318.8	8,146.8	7,917.8
DEL Capital	691.8	563.0	517.3	759.7
AME	2,179.5	2,272.0	2,444.0	2,673.0

* Held within other portfolio chapters includes both resource and capital specific grants and ring-fenced funding for police numbers and police and fire pensions.

Source: Scottish Spending Review 2011 and Draft Budget 2012-13

- 4.3 The most significant issue for Councils is the Government proposal for a “flat-cash” settlement over the next three years. As the table above shows, total Local Government funding will actually go down from £11,548m in the current year to £11,478m next year and £11,442m in 2013/14.
- 4.4 The aggregate value of the shaded items above is £10,590.8m in each of the next three years. This represents the vast majority of government support for Council services and a “flat-cash” settlement means the effect of inflation and other cost pressures will impact on the Council Tax or require expenditure cuts to balance the budget each year.
- 4.5 In terms of support for capital investment activities, the Draft Budget 2012/13 notes that the split between Support for Capital and Specific Capital Grants will be agreed in discussion with COSLA, and communicated to Councils in December. It should however be noted that the capital allocations have been reprofiled with £120m being deducted in 2012/13 and a further £100m in 2013/14. It is proposed that these sums would be repaid over the next 2 years i.e. £120m in 2014/15 and £100m in 2015/16. This proposal stems from a recognition that local government has borrowing powers which can be harnessed to maximise capital expenditure, albeit any such borrowing needs to be affordable.
- 4.6 The Draft Budget states that an additional £70m is provided to allow council taxes to be frozen for a fifth year, although it should be noted that the increase from 2011/12 is only £56.6m and this is all attributable to funding for Teachers (£24m) revised “grant-floor” arrangements (£25m) and Police (£7.6m). In other words, the £70m is now included within the “flat-cash” settlement and is no longer separately funded, with the Draft Budget implying that a share of the £70m will only be paid to Councils who freeze their council tax rates at 2007/08 levels.

- 4.7 The Draft Budget 2012/13 also maintains the Police Grant at the 2011/12 level which seeks to protect this Service from the spending cuts which will be required to balance Council budgets. Finally, the Draft Budget states that Councils will be expected to maintain teacher numbers in line with pupil numbers and secure places for all probationer teachers who require one.

5. FALKIRK COUNCIL CONTEXT

- 5.1 Whilst the Scottish Budget sets out the Government's spending proposals at a high level, detailed figures at the individual Council level will not be available until December in accordance with established practice.
- 5.2 Preliminary work on compiling the Council's draft revenue budget for the forthcoming year indicates that the cost of delivering the existing level of service will rise through the impact of inflation and other cost pressures by around £10m. In addition, there is an expectation that the Council will lose from a review of the Supporting People funding stream following changes introduced in 2011/12 which resulted in significant shifts in funding between Councils.
- 5.3 Whilst the Council currently projects to have General Fund reserves of c£10.1m as at March 2012, there are clearly a number of challenges arising from the "flat-cash" settlement proposed as well as ongoing uncertainty around the final exposure to equal pay claims.

6. RECOMMENDATIONS

- 6.1 Members are invited to:-
- (1) Note the Scottish Spending Review 2011 and Draft Budget 2012/13, and
 - (2) Note that a further report will be produced after receipt of more detailed information in December

Chief Finance Officer

Date: 23 September 2011

Contact Officer: Bryan Smail/Dougie McGregor

LIST OF BACKGROUND PAPERS

1. Scottish Spending Review 2011 and Draft Budget 2012-13

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506353 and ask for Dougie McGregor.