

## MANCHESTER CITY COUNCIL

### REPORT FOR RESOLUTION

**REPORT TO:** Executive  
**DATE:** 24th October 2007  
**SUBJECT:** 2007 Pre-Budget Report and Comprehensive Spending Review  
**REPORT OF:** Chief Executive and City Treasurer

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#### PURPOSE OF REPORT

To inform the Executive of the key announcements contained in the 2007 Pre-Budget Report and Comprehensive Spending Review.

#### RECOMMENDATIONS

The Executive is recommended:

1. to note the key outcomes of the 2007 Pre-Budget Report and Comprehensive Spending Review
2. to agree to receive further updates and analysis as further detail emerges on individual initiatives

#### FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET

There are no financial consequences for the Revenue budget arising from this report.

#### FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET

There are no consequences for the Capital budget arising from this report.

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## **BACKGROUND DOCUMENTS**

- Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, HM Treasury, October 2007

### **Supplementary Documents-**

- PBR CSR 2007: Public Service Agreements, HM Government, October 2007
- The New Performance Framework for Local Authorities and Local Authority Partnerships: Single Set of National Indicators, CLG, October 2007
- Service Transformation Agreement, HM Government, October 2007
- Business rate supplements: a White Paper, HM Treasury and Communities and Local Government, October 2007
- Building better incentives for local economic growth: reforms to the Local Authority Business Growth Incentives scheme, HM Treasury and Communities and Local Government, October 2007

## **WARD (S) AFFECTED**

All

<b>IMPLICATIONS FOR:</b>	ANTI-POVERTY	Yes
	EQUAL OPPORTUNITIES	Yes
	ENVIRONMENT	Yes
	EMPLOYMENT	Yes

## **1. INTRODUCTION**

- 1.1 The Comprehensive Spending Review 2007 (CSR07) and the Pre-Budget Report was published by the Rt Hon Alistair Darling MP, the Chancellor of the Exchequer, on 9<sup>th</sup> October 2007.
- 1.2 With the CSR originally due in the Summer, many of the departmental spending targets had already been announced and most of the related reports and reviews have been published over the last year. Overall, CSR07 has delivered a tough settlement for local government services, with a 1% increase above inflation each year. The new efficiency target of £4.9bn is very high.
- 1.3 The key questions are whether there are any significant changes to previous departmental budgets and what are the implications for local services of the total spending for the review period and the new efficiency target local government is expected to achieve.
- 1.4 A number of supplementary documents were published alongside CSR07 and these include:
  - a new set of Public Service Agreements and a single set of national indicators
  - a Service Transformation Agreement
  - an issues paper on reforms to the Local Authority Business Growth Incentive (LABGI) scheme
  - a White Paper on Business rate supplements
- 1.5 This report provides an outline of the key announcements contained in the review to stimulate discussion and to commence a series of detailed analysis.

## **2. BACKGROUND**

- 2.1 Spending reviews take place every two years and set firm and fixed three-year Departmental Expenditure Limits and, through Public Service Agreements (PSA), define the key improvements that can be expected from these resources. They set out the policy and financial framework and departmental spending plans for the period. The Government delayed the spending review that was due to be published in 2006, with the intention that the next review would be more wide ranging and comprehensive. CSR07 sets spending plans for 2008-09, 2009-10 and 2010-11.
- 2.2 To inform CSR07, the Treasury undertook a programme of analytical work and produced reports on cross-cutting issues, as well as commissioning a series of independent reviews. These include: Sub-national review of economic development and regeneration; the Lyons Inquiry into the funding, role and function of Local Government; the Barker Review of Land Use Planning; the Stern review of the Economics of Climate Change; the Eddington Transport Study; Leitch review of Skills, and the Children

and Young People Review. The Treasury also produced a detailed assessment of the long-term trends and challenges that will impact on public services over the next decade- including demographic and socio-economic change, globalisation, climate and environmental change, global uncertainty and technological change.

- 2.3 A key element of the CSR07 preparations was an ambitious and far-reaching value for money programme, involving both further development of the efficiency areas developed in the Gershon review, and a set of zero-based reviews of departments' baseline expenditure to assess its effectiveness in delivering the government's long-term objectives. The Treasury also recognised the need for a more strategic approach to asset management and investment decisions.

### 3. KEY ANNOUNCEMENTS

- 3.1 The policy and performance announcements in the CSR are focused around the following four key goals:

- Sustainable growth and prosperity
- Fairness and opportunity for all
- Stronger communities and a better quality of life
- A more secure, fair and environmentally sustainable world.

#### 3.2 Key announcements for local government

- An increase in Aggregate External Finance (AEF) Revenue Support Grant (RSG) + National Non Domestic Rates (NNDR) funding of 4.2% in 2008-09; 3.5% in 2009-10 and 3.4% in 2010-11. This amounts to **real terms increases** of 1.5%, 0.8% and 0.7% over the CSR period.
- The Government expects that this will enable local authorities to keep **council tax** increases well below 5% in each of the next three years.
- At least £5 billion of former specific grant and Local Area Agreement (LAA) ring-fenced grant will be delivered in the form of general grants which are **not ring-fenced** (RSG and Area-Based Grant).
- By 2010/11, £900 million previously paid through specific grants will be rolled out into RSG, and at least £4.1 billion of grants will be paid through Area-Based Grant.
- The settlement announces **LABGI** funding of £50m for 2009-10 and £100m in 2010-11, with no funding outlined for 2008-09.
- The Government is consulting on the technical detail of a new power to allow councils to implement a **Supplementary Business Rate** from 2010-11.
- A 3% cashable efficiencies target (£4.9bn over CSR), with councils supported by funding of £150m and the contribution of the capacity building grant.
- A **single set of priority outcomes** for local government working alone or in partnership, a **single set of 198 national indicators**, and there will be

**no mandatory targets for LAA.** All targets reflecting national priorities- to a maximum of 35- will be negotiated through LAAs.

#### **4. THE ECONOMY**

4.1 The economy has grown strongly in 2007, reaching 3.25% over the year. The Treasury has however cut its growth forecast from 2.5-3% in the March budget to 2-2.5 % in 2008, before returning to its trend rate of 2.5-3% in the following two years. The Treasury warns that the recent instability in world financial markets casts some uncertainty over its forecasts.

4.2 To meet the Government's expenditure plans, borrowing will rise this year and it is likely that net borrowing will be much higher than now in each year until 2012. The Government will meet some of its shortfall through gains in corporation tax and in closing loopholes for rich non-domiciles but also, through efficiency gains in the public sector and asset sales.

#### **5. PUBLIC SPENDING**

5.1 Spending growth will halve over the next three years- to an average of 2.1% per annum in real terms. Public spending will therefore grow less quickly than the economy over the three years of the Review period, and will continue to do so over the next period. Over the next five years, spending will be cut as a share of national income by the equivalent of £7 billion in today's money.

5.2 Health has by far the biggest increase in growth in public services, but the growth of 3.7% a year is well down on the 7.2% average that it has seen since 1999.

#### **6. LOCAL GOVERNMENT SPENDING**

6.1 The Government believes that in a tight spending round it has offered a fair and affordable settlement for local government, worth £26 billion by 2010, with 1% growth on top of inflation. The provisional local government finance settlement later in the year will announce further resources for local government with schools grants and other grants. The Secretary of State for Communities and Local Government has said that there will be no need for 'excessive' council tax rises or a reduction in the quality of services.

6.2 Within the overall figures there are announcements of £1.7bn targeted for infrastructure in growth areas and £500m to incentivise local authorities to increase housing supply. The settlement also delivers £2bn over three years for neighbourhood and local renewal programmes and £50m over the same period to promote greater community cohesion and integration.

## **7. EFFICIENCY/ VALUE FOR MONEY**

- 7.1 The CSR confirmed ambitious targets for efficiency savings, a 3% per annum, all cash releasing and totalling £30bn across the public sector by 2010-11. Local government's share of the target is £4.9bn. A value for money delivery plan has been published by CLG with the CSR and shows that savings can be achieved through business process improvements and collaboration- £1.8bn, smarter procurement- £2.8bn and better asset management- £300m. A new Improvement and Efficiency Strategy will be developed between local and central government and published later this year.

## **8. PERFORMANCE FRAMEWORK**

- 8.1 In line with earlier commitments to reduce and rationalise the performance-monitoring burden on local authorities, the CSR announced a new set of priority outcomes for local government working alone or in partnership, as set out in the relevant Public Service Agreements (PSAs) and Departmental Strategic Objectives.
- 8.2 The 30 new PSAs set out the key priority outcomes the Government wants to achieve in the next spending period (2008-11). Each PSA is underpinned by a single Delivery Agreement shared across all contributing departments, and they each also describe the small basket of national outcome-focused performance indicators that will be used to measure progress towards each PSA. (See appendix for list of PSAs).
- 8.3 A single set of 198 national indicators to manage performance delivery outcomes, reduced from an estimated 1,200 has been published since the CSR announcement in '*The New Performance Framework for Local Authorities and Local Partnerships: Single Set of National Indicators*'. A Service Transformation Agreement, which underpins the delivery of the new PSA framework, has also been published. It sets out the Government's vision for building services around the citizen and specific actions for each department.
- 8.4 Any and all targets reflecting national priorities- to a maximum of 35- will be negotiated through Local Area Agreements. There will be no mandatory targets for Local Area Agreements nor any other target setting mechanism for outcomes local government is delivering alone or in partnership. There will be a third round of reward grant- with the level to be announced in November, and the distribution model to be consulted upon and agreed in January 2008.

## **9.0 ECONOMIC DEVELOPMENT**

### **9.1 Supplementary Business Rate**

Alongside the CSR, a white paper has been published which sets out proposals for local authorities to levy a supplementary business rate to support economic development. This will be subject to a maximum of 2p

per pound of rateable value; properties with a rateable value of less than £50,000 will be exempt. This power will be subject to four levels of protection for businesses, with spending only available for a specified economic development purpose and subject to detailed statutory consultation. There will be a requirement to ballot where the supplement supports more than a third of the cost of the project.

## **9.2 Local Authority Business Growth Initiative (LABGI)**

Funding for the LABGI scheme over the next three years has been announced: no funding was announced for 2008-09; £50m for 2009-10; and £100m for 2010-11. The Government has published an issues paper on reforming the scheme and responses are requested by December. This could have significant financial implications for Manchester and the City Treasurer will be evaluating the impact.

## **9.3 Regional Economic Performance/ Regional Development Agencies**

The enhanced strategic role for RDAs, as announced in the Sub-national review of economic development and regeneration, will allow RDAs to make efficiency savings. Funds allocated to RDAs will therefore fall over the next three years, from £2.274m in 2008 to £2.14m in 2010. The settlement enables the provision of £45m over three years to support the development and implementation of The Northern Way growth strategy.

9.4 A new PSA (7) has been included to improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.

9.5 The Government has committed to **simplifying business support** and the RDA settlement enhances the RDA's responsibility for coordinating the funding and procurement of business support, and bringing together business support and skills into a single brokerage service from April 2009.

9.6 The CSR announced spending increases by the Department for Innovation, Universities and Skills on **higher education and skills** from £14.2bn in 2007-08 to £16.4bn by 2010-11 to implement the recommendations of the Leitch Review, developing a strong partnership with employers and individuals to deliver higher skills. The total fund for adult skills and apprenticeships is to rise to around £5.3bn a year by 2010-11.

9.7 There is also a commitment to increase public investment in the **science base** from £5.4bn in 2007-08 to £6.3bn by 2010-11 to implement the recommendations of the Sainsbury Review. (See PSA 4)

9.8 **Jobseeker's Allowance and Income Support rates** will increase for **16-17 year olds** from April 2008 to align with the 18-14 allowances and there will be a national roll-out from April 2008 of the In-Work Credit for lone parents at a rate of £40. (See PSA 8)

## **10. TRANSPORT**

- 10.1 The CSR confirms a 2.25% real increase for transport, with funding to rise to £14.5bn a year by 2010. This will allow the Department for Transport to:
- Go ahead with Crossrail- with DfT providing £5bn in grants
  - Provide £15bn funding in the rail network (includes a programme of station improvements and 19% reduction in journey time between Liverpool and Leeds)
  - Take forward road pricing and local schemes
  - Introduce free off-peak bus travel to all residents in England over the age of 60 and disabled people
- 10.2 The Spending Review announced that £212m will be paid to local authorities by special grant to fund the national bus concession in England 2008/09. This will increase to £217m in 2009/10 and £223m in 2010/11.
- 10.3 Based on the Eddington Study findings, DfT will “prioritise growing and congested urban areas, key inter-urban corridors and major international gateways.” (CSR: pg 57)

## 11. HOUSING AND PLANNING

- 11.1 The total spending on housing over the next three years will be at least £8bn and to deliver the target of 2m new homes by 2016, this will increase to £10bn by 2010. The CSR announced proposals to increase building of affordable homes by 50%. A new Housing and Planning Delivery Grant worth £500m was announced, to provide local authorities with incentives to bring forward more housing.
- 11.2 £1.7bn was announced for investment in infrastructure in designated growth areas, New Growth Points and eco-towns. £4 bn will also be spent on renovating homes and measures to bring empty residential properties back onto the market.
- 11.3 The Government announced that will not introduce a **Planning Gain Supplement** and is instead proposing a statutory planning charge that would enable local authorities to levy a charge proportionate to the size and scale of a development. This would operate alongside a limited section 106 agreement. Key details have not yet been published. The Government will legislate in the Planning Reform Bill to empower local authorities to apply the charges to new development, alongside negotiated contributions for site-specific matters.

## 12. REGENERATION AND RENEWAL



- 12.1 The Government will provide £2bn for neighbourhood and local renewal. This includes continuing the New Deal for Communities partnerships, a new programme to strengthen communities during estate transformation and a new enterprise and renewal fund to target resources more intensively according to neighbourhood deprivation.
- 12.2 In line with the recommendations in the SNR, the new fund will have a stronger emphasis on tackling worklessness, promoting enterprise and improving skills, and will include a reward element to strengthen incentives to improve performance. There will be a specific fund to focus on improving economic prospects of people living in deprived areas- the **Working Neighbourhoods Fund**.
- 12.3 The detailed allocations of the £2bn funding pot will be announced as part of the Local Government Finance Settlement in December which will follow the publication of the Index of Multiple Deprivation in November.
- 12.4 Since the CSR statement, CLG Minister Ian Wright has announced that the Government will continue to fund all of the **housing market renewal pathfinders** for the next three years with a programme of £1bn. The Ministerial statement made clear that allocations for individual pathfinders will be decided following the current review of submissions.

### **13. CHILDREN'S SERVICES**

- 13.1 The settlement for the former DfES was announced at the time of the spring Budget. The CSR provides some further increases but does not go into detail. The total education spending will rise on average by 2.8 % a year in real terms between 2007-08 and 2010-11, from £77bn in 2007/08 to £92bn in 2010/11, but there are no details of how this will be allocated.
- 13.2 The schools funding settlement from DCSF, which will give details of proposed schools grants to authorities for the three years is expected at the end of October or the beginning of November. Many Children's Services grants are expected to be announced around the same time. An additional £250m in total over the CSR period will be devoted to personalised learning and further details will follow.
- 13.3 The total for schools' capital for 2008/11 were announced by Schools Minister Jim Knight in advance of the CSR, as £6,669 m in 2008-09, £7,024 m in 2009-10 and £8,035 m in 2010-11. This includes an additional £200m to accelerate the primary capital programme, enabling a further 75 schools to be newly built or entirely refurbished by 2010-11.

### **14. HEALTH AND SOCIAL CARE**

- 14.1 The NHS will receive a 4% per year increase in spending which means the NHS budget will increase from £90bn in 2007/08 to £110bn in 2010/11. The additional money will contribute to new community services (including 100 new GP services in the most deprived 25% of primary care trusts, and 150 GP-led health centres delivering a wide range of health, social care and well-being services, seven days a week), action on healthcare acquired infections and setting up the Health Innovation Council. There is an expectation that the NHS will realise efficiency savings of at least £8.2bn by 2010/11.
- 14.2 Funds for adult social care will increase by only 1 per cent per year- £2.6bn higher by 2010-11 than in 2007-08. Direct funding of social care is due to increase by £190m, to £1.5bn by 2010-11. This funding will be used to support:
- increased personalisation, including individual budgets
  - investment in prevention- to enable service users to retain their independence
  - phase out NHS residential accommodation- for people with learning difficulties and support them to live independently in the community
  - the Access and Systems Capacity and Delayed Discharges grants will be rolled into RSG by 2010-11.
  - consult on public support and care system

## **15. ENVIRONMENT**

### **15.1 Waste Management**

The settlement announced additional PFI funding for sustainable waste management options, rising from £280m in 2007-08 to £700m in 2010-11. DEFRA's own funding will increase in real terms by 1.4%, with an announcement on the implications for waste funding for local government expected in due course. The settlement also announced a £370m Environmental Transformation Fund which will help promote the economic opportunity created by the need to respond to climate change.

## **16. LGA REACTION TO CSR 2007**

- 16.1 Whilst the Local Government Association welcomes a number of the CSR announcements such as the removal of specific grants and ring-fenced funding and the reduction in the number of indicators, it has responded with some concerns about the reduction in LABGI funding which it believes will have a significant impact on local authorities.

## **17. CONCLUSION AND NEXT STEPS**

- 17.1 CSR07 has major implications for the City Council and its partners as it will shape the programme of public service reform over the next three years. A wealth of information is contained within the PBR/CSR itself and also the series of supplementary documents published alongside it. A detailed and thorough analysis is therefore required.
- 17.2 CSR07 announced key headline spending commitments, however much of the detailed allocations will be published over the weeks ahead. It is recommended that relevant officers begin a programme of detailed analysis to assess the implications for Manchester's budget and service planning as the full picture emerges. Areas of particular concern relate to neighbourhood renewal funding, transport and housing market renewal.
- 17.3 In relation to the supplementary documents released, a working group will be convened and guided by the City Treasurer to look at the issues paper on reforms to LABGI, and the City Council will respond to the White Paper on supplementary business rates, based on our previous dialogue with Government on this issue.

## APPENDIX 1

### Public Service Agreements (PSAs)

CSR07 includes a set of 30 new PSAs which set out the Government's priority outcomes for the CSR period.

	<b>Sustainable growth and prosperity</b>
<b>PSA1</b>	Raise the Productivity of the UK Economy
<b>PSA2</b>	Improve the skills of the population
<b>PSA3</b>	Ensure controlled, fair migration that protects the public and contributes to economic growth
<b>PSA4</b>	Promote world class science and innovation
<b>PSA5</b>	Deliver reliable and efficient transport networks
<b>PSA6</b>	Deliver conditions for business success in the UK
<b>PSA7</b>	Improve the economic performance of all English regions
	<b>Fairness and Opportunity for all</b>
<b>PSA8</b>	Maximise employment opportunity for all
<b>PSA9</b>	Halve the number of children in poverty by 2011-11, on the way to eradicating child poverty
<b>PSA10</b>	Raise the educational achievement of all children and young people
<b>PSA11</b>	Narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers
<b>PSA12</b>	Improve the health and wellbeing of children and young people
<b>PSA13</b>	Improve children and young people's safety
<b>PSA14</b>	Increase the number of children and young people on the path to success
<b>PSA15</b>	Address the disadvantage that individuals experience because of their gender, race, disability, age, sexual orientation, religion or belief
<b>PSA16</b>	Increase the proportion of socially excluded adults in settled accommodation and employment, education or training
<b>PSA17</b>	Tackle poverty and promote greater independence and wellbeing in later life
	<b>Stronger communities and a better quality of life</b>
<b>PSA18</b>	Promote better health and wellbeing for all
<b>PSA19</b>	Ensure better care for all
<b>PSA20</b>	Increase long term housing supply and affordability
<b>PSA21</b>	Build more cohesive, empowered and active communities
<b>PSA22</b>	Deliver a successful Olympic Games and Paralympic Games with a sustainable legacy and get more children and young people taking part in high quality PE and sport
<b>PSA23</b>	Make communities safer
<b>PSA24</b>	Deliver a more effective, transparent and responsive Criminal Justice System for victims and the public
<b>PSA25</b>	Reduce the harm caused by Alcohol and Drugs
<b>PSA26</b>	Reduce the risk to the UK and its interests overseas from international terrorism
	<b>A more secure fair and environmentally sustainable world</b>
<b>PSA27</b>	Lead the global effort to avoid dangerous climate change
<b>PSA28</b>	Secure a healthy natural environment for today and the future
<b>PSA29</b>	Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals
<b>PSA30</b>	Reduce the impact of conflict through enhanced UK and international efforts