

## Appendix for Reconciling Policy and Resources Report

### Financial Context

#### Resource Outlook – National Position

1. The national financial and formula grant context, as it affects local authorities, promises to be the most uncertain and complicated we have faced for a number of years. This is because of:

- tightening national finances generally coupled with the one-off nature of some £1.5 billion of national grant support put into the grant system to support council tax in 2005/06;
- the very likely removal of general grant support for schools funding (i.e. that covered by 'passporting') to finance a dedicated schools specific grant to meet the same purpose;
- new formula grant changes and a move to 3 year grant allocations;
- decisions on the Lyons Review into the balance of funding;
- the impact of the planned council tax revaluation from April 2007 and how those impacts are handled, by the government, in practice;
- the risk of curtailment, or reductions, in current specific grant allocations which are underpinning core spend (e.g. in relation to Adult Social Care);
- the 2004 Spending Review, the second year of which will be in respect of 2006/07

2. All in all, there must be concern that the outcome will be largely negative for local government or at the very least much reduced rates of growth in government support compared to recent years. Indeed, this latter scenario is clearly signalled in the current Spending Review which runs to 2007/08.

3. At this stage, the only solid data available on future national local government funding priorities is the current Spending Review. That suggests national increases as follows:

<b>Formula Spending Shares</b>	<b>Year on Year Change</b>	
	<b>2006/07</b>	<b>2007/08</b>
Education	6.8%	6.0%
Children's Social Services	7.5%	4.6%
Personal Social Services	4.0%	4.4%
Police	4.7%	4.7%
Fire	3.3%	3.8%
Highways Maintenance	0.0%	0.0%
Environmental, Protective and Cultural Services	3.5%	3.7%
Capital Financing	10.1%	9.0%
<b>Total of Formula Spending Shares</b>	<b>5.5</b>	<b>5.1</b>

4. It is important to note that minimum council tax increases of some 5% have been built into the Government's own formula grant calculation, for those authorities whose spending and spending increases (and associated formula grant increases) align with Formula Spending Shares (FSS).

## Financial Context – Local Position

5. The reality, of course, is that the above are not primary drivers of formula grant increases for East Sussex County Council. This council is entirely dependent on (discretionary) minimum grant increase or 'floor'. This is due to the ongoing damaging effects of the last formula changes in 2003/04. Indeed, for the last three years the Council has received the worst, 2<sup>nd</sup> worst and worst increases, respectively, of any County Council in the country. During that period the floor increases the Council have received have very largely simply covered the schools passporting requirement.

6. I have calculated that over the 4 budget years 2002/03 to 2005/06, the Council received equivalent to just 1% more grant, in total, for all services outside schools. During the same period it has virtually doubled the Waste Disposal budget and increased the Adult Social Care budget by 35%. While an element of this has had to be dealt with by council tax, a very significant element has had to come from efficiencies and other savings elsewhere in the council's operations. This imbalance is not sustainable going forward.

7. While discretionary, Ministers have indicated in the past that they intend to retain the floor. That is welcome but at this stage it seems prudent to assume just 1% more grant for services outside schools in each of the next 3 years. This amounts to just some £0.8m p.a. more formula grant (outside schools). For the reasons described above – not least the risk of reduction or curtailment of current specific grants – the situation could be even worse.

8. In lobbying terms, we have written to government asking them to re-consider the way the new Area Cost Adjustment, introduced in 2003/04, works for East Sussex. This one change worsened our position by some £20million when it was introduced in 2003/04. We have sought to strengthen our arguments by enlisting Rita Hale OBE, a respected independent consultant to comment on our concerns. In her professional view there is something significantly wrong in how even the current formula works for East Sussex in practice. (for example, out of 99 recipients of ACA, ESCC receives the 3<sup>rd</sup> lowest ACA per head even though we must compete for labour and other capacity inputs with the rest of the South East and London – all of whom are significant beneficiaries of ACA. Kent receives 3 times as much per head while West Sussex receive 4 times as much and Surrey 12 times as much as us. Indeed locations such as Manchester, Wiltshire, Gloucester, Cheshire and Bedfordshire receive more ACA per head than East Sussex).

9. While we will continue to push the ACA issue, we need to recognise the likelihood of success is modest, not least because the 96 councils who benefit more than us are unlikely to welcome a reduction in their current allocations. It is, therefore, important to also maintain a parallel lobbying stance of persuading the government to provide the maximum floor increases for services outside schools.

## Spending Outlook

10. The Council's net budget (after specific grants and local income) for 2005/06 is some £490m and includes, of course, support for schools funding from a mixture of formula grant and council tax. Overall, council tax payers fund some 40% of net spending and formula grant meets 60%. The burden falling on council tax payers is relatively high compared to the national average and (again) largely reflects the result of the formula changes in 2003/04. The Government have signalled their intention to replace general school funding with a dedicated schools specific grant for 2006/07. While, schools funding will still be part of the Council's gross spending, our net budget for council tax purpose will be significantly different, albeit in presentational terms i.e.:

	<b>Current Budget 05/06 £m</b>	<b>Changes</b>	<b>Revised Start Point for 2006/07 £m</b>
Gross Spend	670		670
Specific Grants etc	(180)	(219)	(399)
Net Spend	490	(219)	271
Met from:			
Formula Grant	296	(219)	77
Council tax	194		194
	490	(219)	271

11. In presentational terms, this means that council tax payers move from meeting 40% of the current net budget to 72% of the reduced net budget. This will make more transparent the extent of government support for services outside schools and reflects more accurately the nature of schools passporting. The process of implementing the Dedicated Schools Grant may have challenging implications for 'LEA' services outside schools as Cabinet have discussed in the past.

12. For future planning purposes, it is assumed that the Council's starting point for 2006/07 will be £271m (reflecting the above). To this, to date, the following standstill pressures have been identified (standstill reflects the cost of simply rolling forward current service policies).

	<b>06/07 £m</b>	<b>07/08 £m</b>	<b>08/09 £m</b>
Normal inflation (3%/2.5%)	6.3	6.7	7.1
Waste Provision	2.5		
Adult Social Care	3.5	3.5	3.5
Vulnerable Children	0.5	0.5	0.5
Agreed Pensions Increase Phasing	1.4	1.4	-
Debt Charges – capital spend			
➤ 'first 2 years' programme.	0.8	0.3	(0.2)
➤ 'back 3 years'		0.2	0.9
➤ Link Road		0.5	2.0
Excess Inflation	0.7	0.7	0.7
New risks	1.5	1.5	1.5
Misc	(0.9)	0.1	0.4
	£16.3m	£15.4m	£16.4m
	(6.2%)	(5.7%)	(6.0%)

(See Annex A for a more detailed breakdown)

13. While standstill pressure will need to be refined during the course of the year in the normal way, there are a number of potential risks not reflected specifically in standstill so far. These include:

- loss or curtailment of current specific grants;
- Landfill Allowance Trading Schemes (LATS);
- Further Adult Social Care investment and risk (i.e. Delayed Discharges);

- Further Children’s Act expectations;
- Risk of Mandatory youth service funding;
- Excess inflation outside transport and highways;
- Capacity to deal with LAAs etc.
- Dealing with backlogs, beyond current plans.

14. At this stage, the standstill pressures assume a total of £2.2m (unallocated) to deal with new risks and excess inflation. At worst the above would more than consume this provision but, at this stage, much more work is needed to scale risk and to determine the priority of otherwise growth/choice bids.

Comparing Standstill Pressures with Resources

15. Comparing standstill and assumed grant increases gives the following position (outside schools):

	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Standstill Pressures	16.6	15.4	16.4
Formula Grant Increases	(0.8)	(0.8)	(0.8)
GAP	<u>15.8</u>	<u>14.6</u>	<u>15.6</u>
Council tax increase required	8.0%	6.8%	6.7%
Saving to achieve 5% rise in council tax	£5.7m	£4.1m	£4.4m

16. This is extremely challenging as it is and is simply not achievable if savings were only to be applied to limited parts of the council's budget. Cabinet will, however, wish to recognise differentiation in policy priorities and risk in how it allocates savings targets if it wishes to limit council increases to 5% or less. Cabinet will also wish to consider the contribution that continued efficiency and productivity gains can make to the issue.

17. As in recent years it will be important to progress in line with Reconciling Policy and Resources and in particular policy steers and priorities but also managing risks – over the medium term as well as the short term.

18. In respect of capital, the Council approved a ‘2+3 approach’ to the five year programme approved last February. In essence, the continuing programme brought forward and new starts in 2005/06 and 2006/07 (and resultant spending tails in to future years) are fully covered. This leaves new ambition in the latter 3 years which is not funded. The standstill budget over the medium term shows the significant growth in revenue debt charges if this ‘excess’ was covered by prudential (unsupported) borrowing. This is compounded even further if the proposed Link Road does not attract effective government financial support. This is also shown in the standstill budget.

19. The Deputy Leader has indicated that he will table his proposal at the Cabinet meeting.