

Report to: **Cabinet**

Date: **18 October 2005**

By: **Deputy Chief Executive & Director of Corporate Resources**

Title of report: **Reconciling Policy and Resources**

Purpose of report: **To give an update on the Reconciling Policy and Resources process**

RECOMMENDATIONS

The cabinet is recommended to note the report.

1. Financial Appraisal

1.1 There are no direct financial consequences of the recommendations of this report.

2. Supporting Information

2.1 At its meeting in July, Cabinet set the Policy and Financial Planning guidelines on the basis for Reconciling Policy and Resources work for 2006/07 and beyond. That work is now underway and progressing according to the agreed tasks and timetable. The outcome of this work will be reported to later meetings of Cabinet in the normal way. This report deals primarily with the County Councils response to the Government's Formula Grant Distribution Consultation Paper and other key current issues.

3. The Consultation Paper Response

Two consultation paper responses to the Government are attached. Appendix 1 is the near final response to the Government's initial proposals for formula grant distribution following a three year formula freeze (due 10 October): the second (Appendix 2) concerns the distribution method of the proposed Dedicated Schools Grant.

3.1 Formula Grant Distribution proposals

Most proposals appear to worsen the County Council's net underlying funding position (e.g. by up to £4m per annum). In brief the proposals show that the County Council's concerns about Area Cost Adjustment are not being addressed and that the County Council could be even more dependent on floor damping arrangements. Proposals (for instance in respect of resource equalisation) appear designated to change formula grant methodologies to reinforce certain regional economic policies – to our disadvantage amongst others. Importantly, new grant system proposals will reduce the transparency of Government's spending assumptions, at a time when the County Council will be asked to forward plan council tax increases. The proposals provide no real recognition of the increased spending pressures affecting Adult Social Care and Waste Management.

3.2 Dedicated Schools Grant

In funding schools by a new specific grant, accountability for meeting spending pressures will fall primarily to the Government. The County Council hopes for neutrality of funding and spending risk in the outcome of the Government's proposals. In the future it is not possible to rule out additional spending pressures or difficulties developing within our schools.

4. Level of Government Funding for Local Authorities in 2006/07 and 2007/08

4.1 I have previously warned of a significant reduction in the annual funding increases for local government. This is confirmed in an LGA paper to a meeting of the Central Local Partnership which sets out estimates of Government funding for 2006/07 and 2007/08. The estimates take account of the additional £637m of RSG in 2005/06 which was for one year only and also the Dedicated Schools Grant of £26.5bn. After allowing for these, the general grant increase (e.g. for services other than schools) for 2006/07 would be only 1.7% with an implied increase in council tax of 7.5%. This is before any local circumstances or underlying spending pressures are taken into account. The ODPM has since indicated that the general grant increase for 2006/07 should be corrected downwards to 0.7%, to take account of other changes, and implies a council tax rise of nearer 10%. This level of grant increase is lower than our current floor assumption of 1% increase and will need to be kept under careful review.

5. The Lyons Review

5.1 Members will be aware that the remit of the review by Sir Michael Lyons into Local Government Funding has been extended to also consider the functions of Local Government. This has delayed publication of the final report which will now be published in late 2006 to influence CSR 2007.

5.2 The revaluation of properties, for council tax purposes, which was to have taken place in 2007 has now been postponed and is considered unlikely to take place during this Parliament. Although it will depend on actual regional valuations, all other things being equal this is good news for our council tax payers given relative house price changes over the last 10 years.

6. Emerging Risks

6.1 Whilst the ongoing Reconciling Policy and Resources process will enable a more refined view of risks to be presented to Cabinet there are a number of those risks that are already becoming more clear:

(a) Specific Grants In 2005/06, the County Council received grants for Government determined purposes ("specific grants") totalling £97m. Changes in these grants each year can additionally affect spending pressures, particularly where funding obligations transfer from specific grant to general grant. Four Social Care Grants are currently known to be affected by funding changes. They are Preserved Rights, Residential Allowances, Access and Capacity and Supporting People Grants. The level of funding at risk may be up to £7m depending on whether attrition rates match the East Sussex experience. The risk depends upon the extent specific grants transfer into general funding on a like for like basis as has previously been the case. Changes in schools specific grants e.g. Standards Fund, should in future reflect through the Dedicated Schools Grant.

(b) Excess Inflation World events are having a major impact on energy prices. Increases in energy costs have already had an impact on County Council budgets which record a 40% increase in fuel oil costs, an 87% increase in gas costs from September 2005 and a 50% increase in some electricity from October 2005 which all will need to be contained within existing current year departmental budgets. I estimate the effects of these changes in 2006/07 could be £0.9m on Schools and £0.7m on other budgets.

(c) Current Years Budget Pressures My note to Cabinet on 28 September and the budget monitoring report elsewhere on this agenda highlight significant revenue risks particularly in Adult Social Care and Childrens Services. These pressures require close management which will continue into 2006/07. Similarly, in respect of capital the excess of ambition over resources in future years will need to be reconciled.

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