

Financial Position Update

A. Resources

1. The Provisional Settlement is expected to be announced during the week beginning 5 December. The settlement this year is likely to be even more complicated than usual owing to the new Dedicated Schools Grant (DSG) and its impact, changes to the formulae for calculating Formula Spending Shares (FSS), the Settlement covering 2 years (2006/07 and 2007/08) and any transfers between specific and formula grant.
2. At this stage the planning assumption is that the DSG adjustments will be neutral – i.e. that the reduction from formula grant will exactly equal the DSG received (DSG will be equal to the 2005/06 schools block spending uplifted for transfers from specific grant (e.g. teachers pay grant) and a minimum increase per pupil of 5%).
3. Changes in specific grants can have a significant effect on spending pressures – particularly where funding obligations transfer from specific to general grant. Four social care grants will be affected, Preserved Rights, Residential Allowances, Access & Capacity and Supporting People grants. At this stage it is assumed that the transfer from specific to general grant will be on a like for like basis and will not result in a loss of grant – if this is not the case up to £7m is at risk.
4. The report to Cabinet on 18 October highlighted the likelihood of a significant reduction in the annual funding increases for local government. Members will be aware of the LGA survey and the report in October “beyond the black hole – a time of opportunity and challenge”. This report compared the Government’s stated increase in total Government Grant (£300m in 2006/07 which equates to 1.5%) with Local Authority spending pressures – the result was a £2.2bn shortfall in funding.
5. There remains considerable uncertainty about the overall increase in Government Grant and the current floor assumption of a 1% increase in grant for the County Council could well be optimistic. As a result, the Deputy Leader has asked for the financial model to reflect 0.5% increase in grant – this equates to only £391,000 increase in grant against a standstill budget of nearly £290million and standstill pressures of over £16m.

B. Standstill Pressures

6. Since July standstill pressures and the financial model have been updated where new information has been received including the revised DSG income, fine tuning of normal inflation adjustments and the disaggregation of support services for the previous Social Services department.
7. The Reconciling Policy and Resources process has highlighted the extent of pressures on the Adult Social Care (ASC) budget and the Deputy Leader has informally indicated an increase in the ASC allocation of £3m (bringing their accepted standstill pressures to some £9m next year giving a budget increase of 6.6% after savings). Members will be aware that all portfolio holders have been asked to model savings beyond the service guidelines issued in July – Libraries, Highways and Building Maintenance a further 0.5%, for all other areas (with the exception of ASC and Children’s) a further 1%. In addition, the Deputy Leader has advised that he will re-examine the extent that corporate areas could produce further flexibility to ensure the additional support for Adult Social Care can be achieved.

8. Similarly the net impact of the increase in employers pension contributions from 15.0% to 16.6% in 2006/07 is currently being assessed in detail to see if this might produce more flexibility.

9. The standstill position for 2006/07 agreed by Cabinet in the July guidelines included £700,000 for excess inflation and £1.5m for new risks. The significant increases in energy costs, by themselves, exceed the 'standard' inflation allowance by some £600,000 in 2006/07. There are a number of other areas where inflation is excessive (e.g. Highway maintenance – Baxter index increases and passenger transport). It is therefore recommended that, at this stage, the provision of £700,000 for excess inflation is increased to £1.3m.

10. Paragraph 3 above highlights the exposure on specific grants – the full detail of these and other specific grants will not necessarily be available at the settlement but will become clear over the following few weeks.

11. There are a number of changes to the Local Government Pension Scheme which are expected to take effect from 2006/07 onwards (for example the revocation of the "85 year rule"). At this stage ODPM are awaiting any final comments from the employers organisation and the Trade Unions – an announcement on ODPM's decision (for consultation) is expected in mid December.

C. Savings

12. One of the tasks of the recent 2 by 2 cycle of meetings, under Reconciling Policy and Resources, has been for portfolios to firm up modelling of savings proposals. Scrutiny Committees have also been considering the planning proformas (including savings) and their comments are set out in Appendix A.

13. Whilst more work in modelling savings is needed in some areas a lot has been achieved. An analysis, commentary and details of the savings is set out in Appendix E which shows that differential targets within portfolios have been developed to reflect core priorities. There would be some significant service reductions in some areas; each Chief Officer has produced a commentary which includes an assessment on the impact of savings – see Appendix D.

D. Capital Programme

14. Cabinet considered the position on preparation of the 2006/07 to 2010/11 programme at its meeting on 15 November and approved the revised 2005/06 programme (following the mid-term review).

15. The Capital and Property Strategy Group, which includes the Deputy Leader, is continuing its work in leading the preparation of the draft programme. The '2+3' model continues to be used with an aim of producing a 2 year, fully resourced capital programme (the '2' of the '2+3') and a good understanding of the medium term investment needs and related resources (the '3'). This will be reported to the January Cabinet meeting.

16. In order to enable informed medium term capital programme planning and affordability of the programme the basis of the amount to be borrowed each year has

been revised. It is now quite clear that, because it is a floor authority, the County Council does not receive additional revenue grant when Government departments issue so called 'supported' borrowing allocations. It is therefore not appropriate to base capital spending on those allocations; instead, a net increase of £1m p.a. for debt charges is included in the revenue budget plan. This will support borrowing of £21m p.a. Whilst there is still an excess of ambition over resources of £75m for the five years, this level of investment should allow a sustainable programme to be developed.

17. As these supported borrowing allocations are currently totally meaningless to the County Council, continued representations have been made to Government on this point. A recent success was achieved when the DfES, on being lobbied on the position, issued capital grant (cash) instead of a borrowing allocation. Lobbying in a similar way for other schemes such as the Bexhill Hastings Link Road is vital.

E. Overall Position and Next Steps

18. The financial model agreed by Cabinet in July has been updated for the issues set out above and for the increased savings as set out in paragraph 7 (see Annex A). In summary these are as set out in the table below:-

Paragraph	Item	£m
5	Reduce floor increase from 1% to 0.5%	0.4
7	Increase in Adult Social Care allocation	3.0
9	Increase in excess inflation provision	0.6
		<u>4.0</u>
7	Increase in service savings targets	(0.5)
6	Minor changes in standstill pressures and updating for new information	(0.5)
	Balance to find	<u>3.0</u>

19. The Deputy Leader has indicated that he will table proposals for changes in the guidelines at the meeting. It is intended that these will include the impact of the Provisional Settlement and any further changes which have occurred since this report was written.

20. Reports to the next Cabinet will also deal with indicative medium term plans.

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