

THE EXECUTIVE

23 DECEMBER 2003

REPORT OF DIRECTOR OF FINANCE

LOCAL GOVERNMENT PROVISIONAL FINANCIAL SETTLEMENT 2004/05 AND BUDGET CONSIDERATIONS FOR 2004/05	FOR DECISION	
<p><i>This report is about the financial position of the Council</i></p> <p><u>Summary</u></p> <p>This report summarises the provisional financial settlement for 2004/05 for the Council.</p> <p><u>Recommendation</u></p> <p>The Executive is asked to agree that:</p> <ol style="list-style-type: none">1. The Executive notes the details of the provisional Formula Grant Settlement and Formula Spending Share for Barking and Dagenham2. The Council's response to the consultation is delegated to the Director of Finance in consultation with the Deputy Leader3. The Executive note the difficult position the Council faces regarding the budget, in particular for EPCS Services, striking the balance between reductions, budget pressures and council tax increases <p><u>Reasons</u></p> <p>To advise Members of the financial settlement and agree the strategy for the approach to the budget prior to setting the Council Tax in March 2004</p>		
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1. Introduction

- 1.1 The Provisional Local Government Finance Settlement for 2004/05 was announced on 19 November by the Local Government Minister, the Rt Hon Nick Raynsford, MP. The final Settlement is due to be announced in January/February 2004.
- 1.2 The overall funding of Local Authority services is summarised as follows:

Government Grants

The main element of Government funding comprises Revenue Support Grant (RSG) and the redistributed amount from the national business rates pool. These

two elements together are known as 'Formula Grant' i.e. that element of Local Government Funding, which is distributed via the Formula Spending Share Formulas.

In addition, various Government Departments also provide Specific Grants, which may usually only be used for the purpose for which they are allocated. Finally there are 'Specific Formula Grants' for specific purposes, but which may be used at the discretion of the authority.

Council Tax

The balance of expenditure in the settlement has to be financed by the Council Tax.

2. Summary Of National Position

- 2.1 Figure 1 illustrates the **national** percentage increases in formula spending share (FSS) for 2004/05 (on a like for like basis compared with 2003/04 for each service block). This indicates the extent to which additional resources are being primarily focused on schools and elderly social services.

Figure 1 National FSS Control Total Increases by Service Block

Service	2004/05 % Increase
Education – schools	5.8%
Education – LEA block	3.4%
Childrens social services	4.9%
Elderly social services	8.7%
Younger adults (18-64) social services	4.1%
Police	4.9%
Fire	3.9%
Highways maintenance	2.5%
Environmental Protective and Cultural Services	2.8%
Capital	5.1%
Total	4.9%

- 2.2 Each year, the government guarantees a minimum increase in formula grant, this is known as the floor grant increase. It also sets a maximum increase – a “ceiling”. Those authorities whose formula grant increase would have been above the ceiling, have their increase reduced to the ceiling. This helps to pay for the floor.
- 2.3 The grant floor (minimum increase) for Education and social services authorities (i.e. our Authority) has been set at 3.5% in 2004/05 (the same as in 2003/04). The ceiling at 5.8% is significantly lower than the 8% figure applied in 2003/04. Thirty (11 in London) of the 150 English upper tier authorities are at the floor and 45 (13 in London including Barking & Dagenham) are at the grant ceiling.
- 2.4 The average increase in Formula Grant (Revenue Support grant and redistributed business rate) across England is 4.7%. The average for London boroughs is 5.1 (5.0% for outer London boroughs and 5.3% for inner London boroughs and the City).

3. Summary Of New Funding Provided And Analysis Of Changes In Funding And Function

Education and Schools

- 3.1 Barking and Dagenham received £1,031,000 in 2003/04 from the London Budget support grant which was provided to assist boroughs in meeting the costs of the higher inner London teachers pay award. It also received £1,128,000 from the additional budget support grant to support LEAs whose schools were likely to be in the greatest financial difficulties arising from the formula changes and reductions in standards fund allocations. This funding is being transferred into FSS for 2004/05.
- 3.2 An additional sum of £12.7 million has been provided by the DfES to ensure that 13 authorities will receive an increase in grant at least as high as their increase in schools funding. In practice this means that these authorities will receive no grant increase at all for non schools services in 2004/05 i.e. their entire grant increase will have to be passported to schools.
- 3.3 The DfES has also confirmed that 51 LEAs will be receiving funding from the new Targeted Transitional Grant to support schools in financial difficulty. This is calculated to guarantee that every LEA will see a schools funding increase (FSS plus schools standards grant plus standards fund) of at least 12% per pupil between 2002/03 and 2004/05.

Barking and Dagenham has been allocated £1.54m in 2004/05 for targeted transitional grant and will receive 50% of this sum in 2005/06.

A condition of receiving the grant is that the LEA agrees to passport its full increase in Schools FSS. A report was considered by the Executive on 16.12.03 setting out this position and recommending passporting the full amount (£5.97m).

- 3.4 The Council is also eligible to apply for up to £300,000 of additional support for schools in financial difficulty. This is in effect a loan, however, rather than a grant and must be repaid - through a reduction in schools FSS - by 2005/06.

Social Services

- 3.5 A number of changes have been announced in relation to social services specific grant funding for 2004/05. These are generally favourable to Barking and Dagenham and – according to the figures published to date - will provide around £2m extra to support this service in 2004/05. This represents an effective increase of 45%.
- 3.6 This arises mainly from additional funding for the access and systems capacity elderly services grant (£1.3m extra) and a new ‘Safeguarding Children’ grant worth £569,000 to support the implementation of the recommendations of the Lord Laming’s report following the death of Victoria Climbié. An extra £225,000 of funding for delayed discharges (bed blocking) is also being provided (this represents 12 months, while in 2003/04 6 months of grant was allocated). These specific grant allocations are for one year only and there is no guarantee that the same levels of funding will also be provided in 2005/06.

- 3.7 The specific conditions against certain grants (£2.3m) have been removed, allowing the department more degrees of flexibility around use.
- 3.8 Two specific grants have ended, however, in 2004/05 – the performance fund (£431,000 in 2003/04) and deferred payments (£102,000).
- 3.9 The government has also set aside £10m to support authorities facing additional cost pressures as a result of the recent Hillingdon judgement on the provision of support services to young adult asylum seekers. The distribution methodology for this will be announced in due course and it is not therefore clear whether we will be entitled to any of this grant. The ALG surveyed its members recently on this and the estimated costs to 9 authorities was £14m.
- 3.10 Three Children’s Quality Protects Grants (£3.2m) have been transferred into FSS.
- 3.11 Appendix 1 details both FSS and grants for Social Services and can be summarised as follows:

	2003/04 £m	2004/05 £m	Change £m	Change %
FSS	53.911	61.294		
Grants	7.543	6.405		
	61.454	67.699	6.245	10.16

Rent Allowances, Council Tax Benefits and Non HRA Rent Rebates

- 3.12 The element of the formula grant system which currently funds around 5% of the cost of rent allowances, non HRA rent rebates and council tax benefit has been removed from FSS and will instead be funded by via subsidy from the Department for Work and Pensions effectively now at 100%. The detailed impact of this is currently being assessed.
- 3.13 The effect of this transfer has been to reduce Barking and Dagenham ’s EPCS FSS by around £1.518m.

Transfer of Rent Rebates into the General Fund

- 3.13 From next April rent rebates (housing benefits for tenants in council properties) will be charged to the general fund instead of the Housing Revenue Account. This looks favourable for the General Fund as a result of level of overpayments we have experienced in previous years, however, the detailed implications are being assessed.

This will be reflected in the HRA rent setting report being considered by the Executive in January 2004.

Environment Agency Levy

- 3.14 The Council’s flood defence levy to the Environment Agency is likely to be reduced by around 97% in 2004/05 as the agency will now be receiving the majority of its funding directly from the government. This reduces the council’s FSS by £0.723m, but has no impact on the overall funding position.

4. Barking And Dagenham's Formula Spending Shares For 2004/05

4.1 Barking and Dagenham's provisional formula spending shares (not cash) by service block are summarised in Figure 2.

**Figure 2:
Provisional Formula Spending Shares**

FSS BLOCKS	2003/04 Actual	2003/04 Adjustments	2003/04 Adjusted	2004/05 Provisional	LIKE FOR LIKE CHANGE	
					Increase (04/05 Provisional vs 03/04 Adjusted)	Increase (04/05 Provisional vs 03/04 Adjusted)
	A	B	A+B = C	D	D-C	
	£m	£m	£m	£m	£m	%
Schools Block	93.783	2.159	95.942	101.912	5.970	6.2
Other Education	12.649	0.000	12.649	13.123	0.474	3.7
Education Total	106.432	2.159	108.591	115.035	6.444	5.9
Social Services	53.911	3.119	57.030	61.294	4.264	7.5
Highways Maintenance	5.013	0.000	5.013	4.848	-0.165	-3.3
EPCS	42.754	-2.236	40.518	42.128	1.610	4.0
Capital Financing	2.400	-0.016	2.384	2.593	0.209	8.8
TOTAL FSS ALL SERVICES	210.510	3.026	213.536	225.898	12.362	5.8

- 4.2 The Council's provisional 2004/05 FSS for the schools block in isolation is £101.91m which represents an effective increase of £5.97m (net of any changes in ring fenced specific grants) or 6.2% compared with 2003/04.
- 4.3 The provisional social services FSS has increased by £4.26m or 7.5% on a like for like basis compared with 2003/04.
- 4.4 The council's provisional 2004/05 EPCS FSS has increased by 4% - on a like for like basis after adjusting for the changes in benefits and flood defence funding – compared with 2003/04. This is higher than the national average of 2.8%.
- 4.5 Our highways FSS has *fallen* by 3.3% compared with 2003/04 compared with the national average increase of 2.5%.

This is mainly due to a reduction in the indicator for traffic flows and the flow of HGV's, buses and coaches on principal roads. Officers are currently examining the reasons for this change locally.

- 4.6 The Council's support for capital financing (interest on borrowing) through the FSS system has increased by 8.8% compared with 2003/04. We receive this FSS, even though we are debt free.

5. Barking and Dagenham Provisional Formula Grant Allocation For 2004/05

- 5.1 The Formula Grant is calculated by comparing the authority FSS with the amount the Government assumes it can raise from Council Tax.

For 2004/05 the provisional calculation is as follows:-

	£m
FSS	225.898
Less assumed Council Tax	<u>51.161</u>
Formula Grant	<u>174.737</u>

- 5.2 The Council's actual provisional formula grant allocation for 2004/05 is £174.74m which represents a like for like increase of £9.9m (6.0%) after taking into account changes in funding and function. This percentage rise is higher than the 5.8% ceiling as an additional £325,000 of grant has been provided to support the financing of capital expenditure. The overall grant figure is £0.5m lower than it otherwise would be due to the Council being restricted to the ceiling requirements (paragraph 2.3).
- 5.3 The taxbase for this provisional settlement will be revised to reflect the latest return, this will be considerably lower (1,453 Band D equivalents) due to an increase in the number of single person discounts.

This lower taxbase would normally increase the revenue support grant, however due to the council being at the ceiling we will not benefit from this increase (estimated to be £1.3m).

- 5.4 Overall, due to the ceiling requirement in this settlement our grant is likely to be £1.8m lower than we could have expected.

6. 2004/05 Budget

6.1 Although the Council has received one of the highest settlements in the country the bulk of the grant increase of £9.9m is needed to fully passport the Schools FSS (£5.97m) leaving £3.93m of grant to support the cost pressures in all the non-school services.

6.2 The budget strategy set in March 2003 was based on:

- Spending at FSS for
 - Education
 - Social Services
 - Highways
- No planned use of reserves for ongoing expenditure
- Protecting Service provision within cleaner, greener, safer
- £2.5m of savings in EPCS
- Indicative council tax increase for 2004/05 of:

14.5%	for LBBD
20%	for GLA
15.7%	Overall

6.3 The FSS changes in Education, Social Services and Highways are:

	£m
Schools	5.970
Other Education	0.474
Social Services	4.264
Highways	<u>(0.165)</u>
	<u>10.543</u>

which exceeds our grant increase of £9.9m by £0.643m

To spend at FSS on these services will require the difference of £643k and all cost pressures within the EPCS block including inflation (over £1m) to be funded by budget reductions or increases in the council tax.

- 6.4 The budget strategy has been aimed at protecting the services that deliver the Cleaner, Greener, Safer priorities and in examining budget reductions officers have been exploring areas that ensure this service area is protected.
- 6.5 It should be noted that Social Services have received considerable increases in grants outside of the FSS and the funding position needs to consider these.
- 6.6 The reduction in the Highways FSS is unexpected and officers are working on the impact of this and exploring how the funding position can be exploited.
- 6.7 Early projections have indicated that there are potential cost pressures within the EPCS block of around £3m (£1m for inflation, £2m for growth).
- 6.8 Based on the initial grant settlement, the budget strategy set out in para 6.2 would result in around £2m savings being needed on the EPCS block.

There is a balance to be struck between the level of growth, savings and council tax increase and this balance is currently being worked on by officers. Officers are currently examining the budget and looking at the package of reductions and growth as well as the detailed budgets based on the current levels of service.

Each 1% on the LBBB element of the council tax generates £420k.

The above is not being suggested as a way forward, but is updating the budget strategy. This will be reviewed as further budget details become available along with further government announcements.

7. Capping

- 7.1 The Minister's statement on the settlement makes reference to council tax capping by saying "Every Local Authority must be in no doubt that we are prepared to use our targeted capping powers in 2004/05 if necessary to protect the interest of council taxpayers".
- 7.2 No formal indication has been given of the capping level the Minister has in mind although there has been and will continue to be extensive reporting on this matter.

8. Consultation Response

- 8.1 The Council has until Friday 2 January to respond to the consultation on the provisional settlement and it is recommended that the agreement to the response is delegated to the Director of Finance in consultation with the Deputy Leader.
- 8.2 It needs to be borne in mind that the current figures are provisional and will change when the final settlement is announced in January/February 2004. Members will be advised of the final settlement and any further information on the resource position for 2004/05 as it becomes available.

9. Conclusions

- 9.1 Although the settlement is favourable for Education and Social Services the current budget projections are indicating significant budget pressures within the EPCS block, and resulting in compensating savings being required in order to fund those pressures.
- 9.2 The Executive has already agreed to passport the increase in FSS to schools.
- 9.3 It is essential that savings are found within the budget, in particular EPCS and the growth within the EPCS block is kept to an absolute minimum for essential items only.
- 9.4 A view needs to be taken on the level of council tax increase.

10. Update – Recent Announcement

- 10.1 On 11/12/03, as this report was being concluded, the Secretary of State announced an additional £340m of funding for local government.

The ceilings and floors will be at different levels. The ceiling has now been increased from 5.8% to 7.5% and this has resulted in this Council's grant increasing by £1.271m to £176.008m.

The consultation period on the provisional settlement date has also been extended to 9/1/04.

The details of this announcement are currently being assessed and a verbal update will be given.

Background Papers

RSG Settlement Papers

Consultation

The following have been consulted in the preparation of this report.

The Management Team (TMT)

SOCIAL SERVICES FINANCE SETTLEMENT 2004 / 2005

APPENDIX 1

	CURRENT YR	NEXT YR	INCREASE £ m	INCREASE %	COMMENTS
	2003 / 2004 £.m	2004 / 2005 £.m			
FSS - GRANT ALLOCATION :-					
CHILDRENS SERVICES	18.824	23.609	4.785	25.42	Includes £3.2 m of previous QP grant
OLDER PERSONS	22.176	24.023	1.847	8.33	
OTHER (ADULTS ETC)	12.911	13.662	0.751	5.82	
TOTAL FSS	53.911	61.294	7.383	13.69	
SPECIFIC GRANT ALLOCATIONS:-	2003 / 2004 £,000	2004 / 2005 £,000	Incr / Decr(-) £,000	Incr / Decr(-) %	
CHILDRENS SERVICES GRANT:-					
Quality Protects(QP)	786	-	- 786	Finished	
Disabled QP	184	-	- 184	Finished	
Leaving Care	2,150	-	- 2,150	Finished	
Choice Protects	122	190	68	+56	
Adoption	74	145	71	+96	
SAFEGUARDING CHILDREN	-	569	569	New	Laming Report / Victoria climbie etc
CAMHS-adolescent mental health	274	382	108	+39	
TEENAGE PREGNANCY	99	129	30	+30	
DEFERRED PAYMENTS	102	-	- 102	Finished	
DELAYED DISCHARGE	227	452	225	+99	Hospital blocked bed fining -
MENTAL HEALTH	524	527	3	+1	
PERFORMANCE FUND	431	-	- 431	Finished	Need to pick up elements in Int.Care
PRESERVED RIGHTS	858	798	- 60	-7	
ACCESS & SYSTEMS CAPACITY	770	2,064	1,294	+168	Primarily for Hospital transfers
CARERS	473	596	123	+26	
TRAINING GRANTS :-					
HR Development Strat.	41	108	67	+162	
National Training Strat.	115	143	28	+24	
Training Support Prog.	174	162	- 12	-7	
TSP-Child Care Award	29	30	1	+3	
YOUNG PEOPLE Substance misuse	54	54	-		Estimated figure
AIDS / HIV SUPPORT	56	56	-		Estimated figure
TOTAL GRANTS	7,543	6,405	- 1,138	-15.087	
OVERALL TOTAL (i.e. FSS and Grants)	£ 61.45m	£ 67.70m	£ 6.25 m	10.16%	