

REPORT TO CABINET

REPORT OF: DIRECTOR OF FINANCE AND STRATEGIC RESOURCES

REPORT NO: FIN 254

DATE: 9 January 2005

TITLE:	BUDGET 2006/07 AND 2007/08 - PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2006/2007 AND 2007/08 BUDGET REQUIREMENT AND RESERVES - RENT INCREASE PROPOSALS 2006/07
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	POLICY FRAMEWORK & KEY DECISION

COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	CABINET AND FINANCE PORTFOLIO HOLDER
CORPORATE PRIORITY:	CORPORATE GOVERNANCE

Introduction

1. The purpose of this report is to comment upon:

- (i) the Provisional Local Government Settlement for 2006/07 and indicative settlement for 2007/08.
- (ii) Budget Requirement and Reserves
- (iii) Housing Rents 2006/07
- (iv) Other Budget issues.

Recommendations

It is recommended the Cabinet:

1. Note the impact of the provisional Local Government Settlement for 2006/07 and 2007/08.
2. Set a target General Fund budget requirement of £13.959m for 2006/07 and consider preparing indicative figures for 2007/08. These to be reviewed by the Cabinet later in the Budget process.

3. Ensure the scale of charges are reviewed as part of the Gateway Budget Review.
4. Agree to the rent proposals set out in the report and these to be consulted with the Tenant Compact.
5. Request further feedback on budget consultation from the Budget Working Party and public feedback from SKNews and the LAA meetings in January, in time for its consideration of budget plans in February.

Provisional Local Government Settlement 2006/07

The provisional settlement data was received on the 5th December 2005. The final settlement data will be received in time for the setting of Council Tax in the New Year. The consultation closes on the 11th January 2006.

2. This report covers the following areas;
 - a. New grant distribution system
 - b. National summary of Settlement
 - c. Capping and Level of Council Tax
 - d. Impact at South Kesteven and likely target Budget Requirement

New Formula Grant Distribution System

3. During the summer the Government consulted on the options for changing the formula grant distribution system. They have opted for the four block model. The new distribution method is similar to the previous system in that slices of money will be distributed according to authorities relative needs; the system will equalize for potential to raise income and a mechanism will be retained to prevent detrimental changes to their grant allocation (the floor damping system).
4. The main change is the removal of notional spending and tax elements i.e. spending as measured by Formula Standard Spending shares and assumed levels of Council Tax. The Government believes these figures previously have been subject to misinterpretation. The new system focuses on cash amount of grants.
5. A brief synopsis of the four blocks follows.

i) Relative Needs Block

This is split into seven main areas of service need- Children's Services, Adults' Personal Services; Police; Fire; Highways Maintenance; Environmental Protective and Cultural Services (EPCS); and Capital Financing.

The relative needs formula (RNF) is designed to reflect the relative needs of individual authorities in providing services. They do not measure the actual amount required to be spent on services. The building block for each area will be an amount per client, topped up by factors such as deprivation and area costs. Since the formulae only reflect relative differences they are expressed as a proportion of the total RNF.

The amount of monetary grant is set by the results of the next three blocks.

Authorities are grouped into those delivering similar services. The RNFs are added together to give a total RNF for each group. The total for each group is then divided by the total population for that group of councils as measured by the mid year population estimates. The minimum RNF per head across all Councils providing the group of services is then subtracted from the RNF per head for each council. The sum of the RNFs above the minimum for each Council is then calculated and is multiplied by the mid-year projected population. The control total for the block is then distributed in proportion to this.

The Relative needs block for South Kesteven is the EPCS block.

ii) Relative Resources Amount

This will be a negative figure and is an assessment of the ability of Councils to raise money locally. Those that can raise more money locally require less government support. The Council tax base is the important factor of this block.

iii) Central Allocation

The remaining money left in the grant pot is then distributed through the central allocation pot on a per head basis.

iv) Floor Damping Block

This exists to ensure that all authorities receive a reasonable grant increase. The Government sets a minimum increase in grant and increases above the floor are scaled back to pay for the floor guarantee.

Summary of National Position

6. The key points of the settlement as provided by the Local Government Association (LGA) are:

- A headline increase of 4.5% in aggregate External Finance in 2006/07 and 5.0% for 2007/08, (including schools). In 2005/06 the increase was 6.2%.
- An increase in Formula grant beyond the Spending review 2004 of £305m in 2006/07 and £508m in 2007/08.
- Total increase in Formula grant of 3.1% in 2006/07 and 3.8% in 2007/08
- Relief of spending pressures through
 - -funding of net cost of new burdens
 - -financing cost pressures of pensions rule of 85 rule
 - -agreement to work with LGA on managing pressure on pay, waste, adult social care

- -commitment costs of new licensing will be met by national fee regime.
- Increase in ring-fenced grant of over 50%-in particular the introduction of ring-fenced Dedicated schools grant in 2006/07.
- New formulae changes for Personal social care and Concessionary fares
- Damping arrangements-the floors will be 2% for 2006/07 and 2.7% for 2007/08, for those with Education and social services, 3.2% and 3.7% for police Authorities, **3% and 2.7% for Shire districts**, and 1.5% and 2.7% for fire authorities.
- Publishing of notional amounts for capping purposes for those Authorities impacted on by the changes in Education Funding.

Table 1 below summarises Government Funding for 2006/07 and 2007/08(£M)

Table 1 - Aggregate External Financing

		2005/06 Adjusted	2006/07	Change Adjusted	2007/08	Change Adjusted
	TOTAL AEF	59,423	62,103	4.5%	65,083	5.0%
Of						
which	Special Grants	39,190	41,179	5.1%	43,433	5.5%
	NET AEF (SR2004)	44,281	47,184	6.6%	49,608	5.1%
Plus	Total post-SR transfers	-24,049	-26,260		-27,958	6.1%
Equals	NET AEF	20,233	20,924	3.4%	21,650	4.0%
Minus	NNDR Distributable Amount	18,000	17,500	-2.8%	17,500	0.0%
Equals	TOTAL RSG	2,233	3,424	53.4%	4,150	25.0%
Minus	RSG for specified bodies	63	65	2.6%	58	-4.4%
	TOTAL RSG FOR RECEIVING					
Equals	AUTHORITIES	2,170	3,360	54.8%	4,092	25.5%
add						
back	NNDR Distributable Amount	18,000	17,500	-2.8%	17,500	0.0%
plus	Police Grant (incl. Met. Special					
plus	Payment)	3,883	3,931	1.2%	4,028	2.5%
equals	FORMULA GRANT	24,053	24,791	3.1%	25,620	3.8%

Source LGA/ODPM

7. The above table demonstrates the macroeconomic switches of funding between special grants, NNDR and Formula Grant. The NNDR rate in the pound will rise by 2.7% in line with September 2005 RPI, taking it to 43.3p in the pound. It is expected that the level of external support should keep Council Tax increase to less than 5%.

Table 2 below shows the changes in Special grants (£m)

Table 2: Special Grants

	2005/06 Adjusted	2005/06 to 2006/07 Latest		2006/07 to 2007/08 Latest	
		2006/07 Latest	2006/07 Change	2007/08 Latest	2007/08 Change
Education	28,676.0	30,466.3	6.2%	32,288.9	6.0%
PSS	2,805.0	2,901.8	3.5%	2,894.5	-0.3%
Fire	0.6	0.6	0.0%	0.6	0.0%
Police	4,442.0	4,519.0	1.7%	4,868.3	7.7%
EPCS	389.4	392.3	0.7%	390.6	-0.4%
Capital	425.0	455.0	7.1%	535.0	17.6%
Unallocated	2,453.5	2,443.9	-0.4%	2,455.2	0.5%
TOTAL	39,191.6	41,179.0	5.1%	43,433.1	5.5%

The above table highlights the authority's level of special grants for Education, Police and Personal Social Services. Those with Education powers will be working out the impact of the dedicated schools budget and whether there is an adverse impact on other services of the ringfence.

Formulae Changes

8. There are a lot of Formulae changes included within the settlement. The Lincolnshire Missing Millions campaign responded to the consultation paper on the changes. In terms of South Kesteven District Council the formula changes in the EPCS block for concessionary travel were the ones requested by the Lincolnshire Authorities. I will need to analysis the data in detail to ascertain any other formulae changes impacting on South Kesteven District Council, in particular those relating to density, sparsity, capital financing and flood defence. Individual authority tables have now been published and I will update the Cabinet on any relevant issues for South Kesteven.

Winners and Losers - Re-Distribution of Formula Grant

9. Table 3 overleaf shows the % change in formulae grant across the regions. The East Midlands has the greatest increase in formula grant over the next 2 years.

Local Authority type	2006/07 (%)	2007/08 (%)
London area	2.7%	3.5%
Metropolitan areas	2.6%	3.6%
Shire areas	3.3%	4.0%
Isles of Scilly	7.1%	12.1%
Inner London boroughs incl.		
City	2.6%	3.7%
Outer London boroughs	2.6%	3.2%
London boroughs	2.6%	3.5%
GLA - all functions	3.0%	3.6%
Metropolitan districts	2.4%	3.6%
Metropolitan fire authorities	1.7%	2.9%
Metropolitan police authorities	3.5%	3.7%
Shire unitaries with fire	3.5%	6.1%
Shire unitaries without fire	2.8%	4.2%
Shire counties with fire	3.1%	4.2%
Shire counties without fire	2.9%	3.7%
Shire districts	4.8%	4.7%
Combined fire authorities	3.4%	3.6%
Shire police authorities	3.4%	3.7%

FLOOR GROUPS

Education/PSS Authorities	2.7%	3.7%
Police Authorities	3.4%	3.7%
Fire Authorities	2.4%	3.1%
Shire Districts	4.8%	4.7%

GO REGIONAL SUMMARY

South West GOR	3.3%	4.2%
South East GOR	3.1%	3.4%
London GOR	2.7%	3.5%
Eastern GOR	3.5%	4.1%
East Midlands GOR	3.6%	4.5%
West Midlands GOR	3.0%	4.0%
Yorkshire and Humber GOR	2.8%	3.6%
North East GOR	2.7%	3.5%
North West GOR	2.9%	3.8%

South Kesteven District Council-The local impact and interpretation of the Settlement

10. The remainder of the report considers the settlement data specific for South Kesteven District Council and offers some comments on the settlement generally.

It should be borne in mind that the comparison between 2005/06 and 2006/07 assumes that any new obligations in 2006/07 have been adjusted in the 2005/06 grant figure shown to create a like for like comparison of grant increase. The cash increase in grant will simply be the 2006/07 grant, plus the net impact of the amending reports over the grant received in 2005/06. It will be important to determine how much of the Council budget is allocated to the new areas, in particular free concessionary fares because this will determine the real increase in resources to the Council. Table 4 below is a summary of the position for South Kesteven.

Table 4 - South Kesteven's Settlement Figures

Description	2006/07	2007/08
Relative needs Amount	£3.218m	£3.269m
Relative Resource Amount	£-2.215m	£-2.413m
Central Allocation	£8.294m	£8.820m
Floor Damping	£-.0028m	£-.062m
Formula Grant	£9.269m	£9.615m
Formula grant after Amending reports	£9.323m	
FG- rsg	£1.493m	
FG-nndr	£7.7776m	
Amending grant	£.0054m	
Adjusted Grant 2005/06	£8.973m	£9.269m
Grant Received 2005/06	£8.368m	
Increase in Formula grant on Adjusted 2005/06	3.3%	3.7%
Increase including amending reports	3.9%	
Increase on cash base-assume no additional functions	10%	

11. Table 4 illustrates the calculations of grant at local level. Overall it is not a bad settlement for South Kesteven District Council. In terms of the rest of the Lincolnshire Districts table 5 below shows the position.

Table 5 - Increases in Lincolnshire

Authority	Increase % 2006/07
Boston	8.1
East Lindsey	7.6
Lincoln	3.0
North Kesteven	9.8
South Holland	5.2
West Lindsey	10.9

12. Thus on a relative basis South Kesteven District Council has not fared as well in the settlement as its neighbours. I will need to investigate the detailed formulae to see whether the impacts of weightings for sparsity have been changed. Although South Kesteven increase is just above the average countrywide it remains very close to the floor, and thus sensitive to any changes in damping arrangements.
13. It is the relative position that is so important. The new grant system formulae will over time redirect monies from one area to another and we must review the individual factors in the formula to ensure we respond to future Government consultation on the formulae.
14. Following a seminar I attended on the Local Government settlement a number of interesting factors emerged. Firstly that there is a clear expectation from the ODPM that local authorities would announce indicative Council Tax figures for 2007/08, in order that Council Taxpayers would be advised in advance of the likely situation .For this to be meaningful we would require the major precepting authorities to provide their figures. I am studying the Budget requirement regulations to ensure any Council resolutions relating to 2007/08 are included if required.
15. Secondly, the new grant system creates a major change in who is paying for Local Services. The removal of Education funding from the ODPM to the DFES as a specific grant moves 50% of funding from formula grant to a single service. Thus the resultant situation is at least 70% of services are being funded by redistributed business rates. If national estimates on the collection of business rates prove poor there could be a funding problem for the Government. It also means the ODPMs flexibility on the size and format of funding is limited because control has been passed to the sponsoring department.
16. At District level, three changes have given the improved funding position. The £350m added for concessionary fares, the amendment of the calculation on interest receipts within the capital financing element, and a change in the national council tax base by Authority type. I am unable to ascertain the additional funding the Council has received from the input of Concessionary Fares. The new money is added to the pot and then goes through the same formula as the rest of the grant and is affected by damping etc. The capital financing change might be more evident when the individual tables are analysed for each Council. The share of national tax base has been tweaked by the ODPM. This is used in the calculations to assess tax raising abilities by class of authority. For 2006/07 Districts have seen a reduction of 3.93% whilst County Councils, Metropolitan Areas have seen an increase. This effectively means Districts would receive more grant within the Resource equalization process.
17. In simple terms the adjustments for the new system and responsibilities perhaps are best measured through the grant increase between 2005/06 cash received and the adjusted grant for that year. For South Kesteven District Council this amounts to £600,000. South Kesteven remains just above the floor. If the government continues to want to see the new grant system work through properly the Council could find its increase at the minimum level only. I think it would be worthwhile reviewing the factors that leave South Kesteven District Council in a relatively poor position to see whether any data can be challenged in future years.

Budget requirement and Capping and Reserves

18. Given the relative position I advise setting a target budget requirement for budget formulation purposes of £13.959m and resultant Council Tax of £105.84, subject to ensuring investment plans are clearly laid out for the Council's priorities. It is likely the capping regime will be harsh and I will need to assess the Government guidance on this before giving final advice on the target budget requirement and level of Council Tax. I would advise that an indicative rise in Council Tax for 2007/08 be assessed within the range of 4.5% to 5% and be linked to the investment plans laid out in the Council's priorities.

19. The Cabinet must also have regard to the level of balances held and the purpose for which they are held. The General Fund working balance which at 31 March 2005 is £3.097m is set at 5% of the Council gross expenditure budget. It exists to cover the Council for any unanticipated expenditure or loss of income that may occur in the year. This reserve is set at an adequate level for normal activity. The Council's specific reserves are shown below, in Table 6.

Table 6 - Specific Revenue Reserves

SOURCE	Balance 31 March 2005 £'000
Insurance Reserve	935
Direct Works Organisation	-
Future Minimum Revenue Provision	1,210
Building Control	319
Capacity Building, Priority Setting and Service Improvements	1,300
Stock Option Ballot Reserve	1,000
Pensions Reserve - Former Employees	372
- Current Employees	1,616

20. Specific reserves must only be held if their use is clear and the timing of their use identifiable. I think it would be prudent for the Cabinet to give serious consideration to using the Capacity and Priority setting Reserve (£1.3m) over the next 2 years. This was set up to pump prime the investment required in achieving the quality outcomes. As part of the 2006/07 budget round I would expect to see plans for the reserves use. It has been used to fund some supplementary estimates in the year relating to the Housing Solutions reviews and Strategic Director posts. During the review of the revised position for 2005/06 it will be possible to estimate the likely requirement of this reserve.

21. The Minimum Revenue Provision (MRP) (£1.2m) Reserve has been reviewed by Butlers, a Treasury Management Consultancy, as a piece of their work on the Treasury management activity of the Council. This reserve was set up to mitigate the impact of any fluctuations in the MRP required by the Council to avoid large increases in Council Tax in any one year arising from the commutation of Loans Charges in 1992/1993. The prudential code is now settling down and following any adjustments required for 2004/05 to bring the old capital financing system in line with the new system, the remainder of this reserve can be brought back to the General Fund and provide further investment to achieve priorities. Thus, the future spending plans need to incorporate the use of this reserve.

22. The Councils capital reserves (£4.6m General Fund) are fully utilized in funding the general fund capital programme. The capital programme will provide a substantial investment in maintaining existing assets and delivery any future priorities.
23. The LSVT ballot reserve (£1m) was set up at the end of 2004/05 and will be used to offset any costs of a failed ballot. Consideration of the use of this reserve will only be made post-ballot.
24. The other specific reserves relate to the insurance fund and the pensions funding deficit. It can be demonstrated the purpose and use of these reserves and they will be maintained at required levels, to ensure Council Tax is not unduly influenced by changes in pension contributions, or insurance market fluctuations.

Housing Revenue Account - Rent Setting 2006/07

25. The main element of policy relating to the Housing Revenue Account is the setting of rents for 2006/07. The Councils current policy is to keep in line with Government guidance on Rent restructuring and guideline rent increases. The following is an analysis of the Government proposals for 2006/07 that will need to be implemented.
26. A review of the ten year rent restructuring policy was undertaken in the summer of 2004, three years into the process. Numerous issues were raised, leading the ODPM to delay implementation of the recommendations until 2006/07.
27. The following changes need to be implemented in full for the 2006/07 rent year:
 - new bedroom weightings for 3,4,5 and 6+ bedroom dwellings
 - new national average rent at April 2000
 - new national average property value at January 1999
 - amend annual updates from the GDP deflator plus real cash increase to RPA
All items plus real cash increase
28. The ODPM have previously recommended a 3.2% rent increase for 2006/07 based on a 2.7% RPI All Items Inflationary element plus 0.5% real cash increase. Individual property rents are not to be increased by more than the 3.2% plus £2 from 2005/06 to 2006/07 and are still subject to caps and limits as specified by the subsidy determination.
29. The ODPM have specified the average rise over all stock for each of 2006/07 and 2007/08 must not exceed 5%. However, the transitional process of rent restructuring together with the annual rent rise will lead to individual rents increasing by amounts above and below 5%. Authorities have the discretion to vary individual rates by +/-5% and are "encouraged to have regard to the policy intention to create more realistic differentials for larger properties" when adjusting the average rent to 5%. A compensation scheme to cover lost rental income is planned by the ODPM.

Other Budget Issues

30. Through the analysis of service plans I would advise the Cabinet to review the scale of charges for individual services. A summary of initial proposals is shown in table 7 below and these will be used in discussions as part of the Gateway Reviews.

Table 7 - Scale of Charges 2006/07

SERVICE	COMMENT	2006/07 CHARGE
Bus Station Departure Charges	Increased in 2004	No increase proposed in 2006/07
Markets	Increased in 2002	Should recover cost of service
Car Parks	Increase in April 2006	Policy of increase every 2 years
Land Charge Fees	Increased in 2003	No increase proposed - full cost recovery being achieved
Grantham Cemetery	Increased in April 2005	Proposed charges in April 2006 to reflect cost increase on grounds maintenance
Helpline Service	Increased in April 2005	Inflationary increase in 2006/07
Licences	Reviewed in 2005	Inflationary increase in 2006/07
Hackney Carriage	Reviewed in 2005	Inflationary increase in 2006/07
Air Pollution	Increased in 2003	Fees set by Dept of Environment
Building Control Fees	Increased in 2005	Increased proposed 2006/07
Planning Fees		Charges to be set by ODPM
Arts Centres	Increased in 2005	Inflationary increase in 2006/07
Bourne Corn Exchange	Increased in 2005	Inflationary increase in 2006/07
Fairs	Increased in 2005	Inflationary increase in 2006/07
Leisure Centres (inc. Stadium)	Increased in 2005	Inflationary increase in 2006/07 in accordance with management contract
Outdoor Recreation	Increased in 2005	Inflationary increase in 2006/07
Pedal Park	Increased in 1999	No increase proposed due to poor usage

31. Budget consultation will be undertaken through SKNews, the LAA's and a joint meeting with Lincolnshire County Council and Police Authority. The Budget Working Group will review the main budget issues as part of the consultation and development process.

Conclusion

32. I will continue to analyse the detail of the settlement and budget and update accordingly.

John Blair
Corporate Director of Finance and Strategic Resources