

REVENUE SUPPORT GRANT SETTLEMENT 2005/06

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

16TH DECEMBER, 2004

Wards Affected

County-wide.

Purpose

To note the provisional Revenue Support Grant (RSG) for 2005/06 and consider its impact on the Medium Term Financial Plan 2005/06-2007/08.

Key Decision

This is not a key decision.

Recommendation

- THAT (a) the details of the provisional Local Government Finance Settlement be noted.**
- (b) the current budget strategy be maintained, thereby maximising the Council's room for manoeuvre in the final consideration of the budget for 2005/06 and**
- (c) Cabinet requests Council to defer the March meeting of Council to 11th March, 2005.**

Reasons

Final decisions on the budget are taken by full Council.

Considerations

1. The provisional Local Government Finance Settlement was issued by the Office of the Deputy Prime Minister (ODPM) on 2nd December, 2004.
2. Preliminary analysis has been undertaken and whilst the settlement is more favourable than had been indicated from the figures provided as part of the Government's Comprehensive Spending Review (CSR) 2004, the Government's assessment of level of council tax also appears to have been revised downward. It is important to emphasise at this juncture that the most significant change has been as a result of the additional resources provided by Government. However, there are also changes reflected in the settlement for transfer of funding both to and from local authority, Formula Spending Share (FSS), funded responsibilities. The County Treasurer will report at the meeting on any further significant issues emerging.

Further information on the subject of this report is available from
Mr. I. Hyson, County Treasurer, on (01432) 260235

3. Appendices 1-4 to this report provide details of the settlement. The key elements to draw to Cabinet's attention, in addition to the extra funding, are as follows:
- An increase in FSS (2004/05 adjusted base) from £173,193,164 to £182,373,188 or 5.3% taking account of the transfer of functions.
 - A corresponding increase in central funding of 5.3%.
 - A transfer of £75,000,000 nationally from the Schools Block to EPCS (Other Services).
 - Significant increase in capital financing block (under review).
 - Flood defence levies transferred to Environment Agency.
 - Lower than average increase in Highways.
 - Preserved rights funding (Social Care) transferred to local authorities significantly reduced/deferred.

Impact on budget strategy

4. On the basis of the work done thus far, the Council's net grant position, when compared with that previously reported, is some £2,000,000 better than had been indicated by CSR 2004. By far and away the most significant factor has been the additional resources put into the system, events which were forecast when at a late stage the settlement date was postponed. Although subject to further clarification, it seems clear that the additional resources are one-off for 2005/06 only. The additional resources should not, however, be seen as obviating the need for the current budget exercise because they will in part be required to meet an expectation by Government of lower increases in Council Tax.
5. A further major change to have developed over the last few weeks is the reduction in the amount of preserved rights expenditure (Social Care), currently funded by specific grants, to be transferred into mainstream FSS funding. Cabinet will recall the advice, given at the meeting on 21st October when the CSR 2004 was considered, and reiterated at Budget Panel, that the Revenue Support Grant settlement could be some £1,000,000 higher than forecast, from CSR 2004, but this was uncertain as the issue was still under review. The transfer of responsibility reflected in the settlement amends the clear statement about transfer made in conjunction with CSR 2004 by both postponing and phasing the original proposal. The sum involved is in the order of £1,000,000. The ODPM has now confirmed that further transfer to FSS funding will take place in 2006/07. On the basis of current information the Council should prudently anticipate the loss of the sum of £1,000,000 in 2006/07.
6. ODPM guidance has also been recently received regarding the approach to be taken in implementing the results of the triennial actuarial review of the Superannuation Fund. The essence of that advice is the adoption of a long-term perspective in the recovery strategy for such funds nationally. In applying the recommended criteria, stepped increases in contributions will now apply for the period 2005/06 to 2010/11. The consequence is a reduction in expected costs of £750,000 in 2005/06 with cost increases by some £200,000 per annum thereafter. Again, the estimates provided by the Superannuation Authority will have to be met as originally assessed but the revised advice allows the increase to be phased over a longer period.
7. Therefore, whilst the increase in funding reflected above might afford some short

term relief, and will help in bridging the “budget gap”, it should not be seen as providing a longer term solution to the budget position, merely providing further breathing space. The potential withdrawal of the additional resources in 2006/07 in effect just transfers part of the funding gap into later years.

8. The additional timeframe over which to optimise the Council's ongoing efforts to secure economies from procurement and the Service Improvement Programme is helpful but the need to drive forward these issues remains.
9. A further factor is the absolute necessity of avoiding capping. The most recent pronouncements talk in terms of average increases below 5%. The ODPM also refers to assumed average rises in Council Tax yield of 4.8% (compared to 6.7% in CSR 2004) reduced by increases in tax base equivalent to 1.2%. The equivalent figures for Herefordshire are 5.2% and 0.5% respectively but are subject to final confirmation.
10. The position regarding capping will, of course, become clearer as the budget proposals of other authorities, particularly Unitary ones with whom Herefordshire would be compared for capping purposes, emerge.
11. Cabinet is, therefore, advised to maintain the existing budget strategy on the basis that it will provide the most effective platform from which final budget decisions, informed by up to date information on the national position, can be considered by full Council in March. Accordingly, it is recommended that the date of Council is deferred by a week to 11th March, 2005.

Risk Management

Continuing with the existing budget strategy and planning for the medium term reduces the risk of setting a budget inconsistent with the Council's key priorities.

Consultees

None.

Background Papers

RSG Settlement 2nd December 2004.