

## STRATEGIC AND FINANCIAL PLANNING

### 1 SUMMARY

- 1.1 To inform Members of the current available information in respect of the grant settlement and Capping issues for 2005/06. This information will have to be taken into account for the Members' awayday and all issues leading to the determination of the Council's priorities and budget setting for 2005/06 and subsequent years.

### 2 INTRODUCTION

- 2.1 Members will recall that the two major sources of income to fund services are the financial support made available by the Government and Council Tax. For 2005/6 it appears that both sources of income will be limited by Government action. Members therefore need to understand the emerging position
- 2.2 It must be stressed that no firm information has yet been made available by the Government. However, ministers have made statements and issued press releases and the Local Government Association has issued interpretations.

### 3 RESOURCES LIKELY TO BE AVAILABLE TO THE COUNCIL

- 3.1 The resources available to the Council depend on the following:-
- Government announcements regarding Revenue Support Grant
  - Government announcements on Capping and Council Tax
  - The actual Council Tax set

#### GOVERNMENT ANNOUNCEMENTS REGARDING REVENUE SUPPORT GRANT

- 3.2 There have been a number of developments that could have an effect on the grant distribution. Firstly, the Government has concluded the first stage of the Balance of Funding Review. Generally there are no key issues that affect the short term budget. The Government has concluded that Council Tax should be retained but that any changes to it should be the subject of further research. The Government have also agreed that there should be more local funding but acceptable options still have to be agreed.
- 3.3 Following the previous review of the funding formula the Government announced that there would be no major changes to the distribution formula. The last year of the freeze is 2005/06. Therefore, there is the potential for change from 2006/07. However, there is no basis for projecting any possible effect on this Council.
- 3.4 The Government announced that, in future, it plans to introduce three year settlements for both revenue and capital. Whilst this move does not replace

the overall desire for better funding, having knowledge of the three year support will improve financial projections and planning. This will not be introduced until 2006/07. This will be the first year of a potential new level of grant support.

- 3.5 For District Councils the main focus of attention for grant support is the **Environmental Protective and Cultural Services (EPCS)** block within the grant distribution formula the **Formula Spending Shares (FSS)**. The Local Government Association has stated that “ there will be very limited additional funding for the EPCS block and in their view the under funding of these services remains a serious problem. The impact will be felt across all types of Authority, but will be most severely felt by District Councils”. This suggests that, even on the basic assessment, we cannot be hopeful of better funding.
- 3.6 It should be remembered that all the critical services for the District Council are covered by the EPCS funding block. This includes the Council having to deal with the environment and street scene and all the mounting pressures of waste collection and disposal, including recycling. Indications are that the overall increase will be 0.6% in real terms. However, the starting point for the calculation of the increase is likely to be the 1st notification figures of grant for 2004/05. The first notification figure was around £92,000 less than the revised figure actually used for grant distribution. Inflation plus real growth of 0.6% on the 1<sup>st</sup> notification figures will result in a real reduction in grant on the basis of the same model as last year.
- 3.7 The outlook for basic funding again appears to be disappointing, especially as we are the lowest funded Council in Essex on a per head of population basis.
- 3.8 Added to this is the efficiency review undertaken by **Sir Peter Gershon**. This review sets out efficiency targets for the public sector. For Local Authorities, the target savings and productivity improvements are £6.45 billion by 2007/08. How this will be translated into any adjustment of Government Support is not known at this stage. A significant percentage of the £6.45 billion will be in “efficiency” savings where it can be demonstrated that performance is rising faster than cost. The Government wants to see savings made in back office services directed towards front line services. However, the result could be that Rochford has to make back office savings and the Government gets to choose which front line services benefit. Target savings necessary through reduced grant paid to the Council will remove any ability to re-invest in front line services.
- 3.9 Although we have been the lowest spending Council in Essex over recent years there appears to be no recognition for this fact in setting any potential targets for expenditure reduction through the efficiency review. We are also a Council, which has market tested major services and only recently achieved significant value for money improvements in, for example, the Leisure Contract.

- 3.10 The Government policy towards **floors and ceilings** will again be critical for Rochford. Members will recall that, although the Government has judged that Rochford needs additional resources, it is withholding part of these resources to ensure that those Councils that it now regards as over funded do not lose grant too quickly. Our financial position could be very different if the grant owed to this Council were released, as the grant held back by the Government was around £ 228,000 for 2003/04 and £ 232,000 for 2004/05.
- 3.11 The Government has also announced the future level of support for 'Supporting People' funding. There is a proposed reduction of £280m over the next three years. This funding is a factor in the support of sheltered housing tenants and therefore there is a potential effect on the Housing Revenue Account and, in addition, funding of other issues like the Home Improvement Agency and schemes in partnership with Housing Associations which require supporting people funding.

### **GOVERNMENT ANNOUNCEMENTS REGARDING CAPPING AND COUNCIL TAX**

- 3.12 Members will recall that, for 2004/05, the Government made a number of statements that Councils should keep tax increases to low single figures. After the Council Tax had been set the Government declared a three stage test for authorities to determine if they would be considered for capping. This was a test to see if the tax increase was greater than 8½ %, budget requirement greater than 2% and whether the district council tax was higher than the average for districts. Whilst the tax increase for Rochford was higher than 8½% and Rochford is above the average council tax due to the low level of government support, our budget increase was less than 2 % and, therefore, Rochford was not considered for capping.
- 3.13 The Government now wish to see a 3% increase in Council Tax for 2005/06. However, the Government's spending plans include an element to be financed by Local Authorities and this is shown as 6.7%. Whether this gap is the target savings required by the Government through the initiatives covered by the Gershon review remains to be seen. The Council will have to take great care in setting the Council Tax for 2005/06 as the budget requirement increase will be higher for 2005/06 than 2004/05. In addition, recent statements have indicated that the Government intends to take a tougher line with councils who set taxes in excess of what the government thinks are appropriate increases.
- 3.14 The forward budget strategy for Rochford is based on a 9% tax increase for the life of the strategy. Even if the Council Tax increase were restricted to 3% for 2005/06 only, i.e. 3% 05/06 and then 9% per year thereafter, the income loss to the Budget Strategy would be around £1.7m. Significant enough to turn a General Fund balance of £850,000 to a negative balance of £850,000. Announcements from the Government will be carefully considered to try to gauge the parameters for tax setting for 2005/06. However Members are

reminded that the actual capping rules are usually announced after the Council Tax has been set.

### THE ACTUAL COUNCIL TAX SET

- 3.15 Leaving Capping aside, the impact of the total Council Tax for the residents of Rochford is mostly affected by those who precept on us. For 2004/05 Rochford District Council is only 12.6 % of the total tax bill. The model below shows the overall effect if Rochford were able to set a tax of 9% and all preceptors kept to 3%.

	2004/05	2005/06
Essex County Council	891.54	918.29
Essex Police	99.27	102.25
Essex Fire Authority	56.43	58.12
Average Parishes	26.11	26.89
Rochford District Council	155.16	169.12
<b>Total</b>	<b>1,228.51</b>	<b>1,274.67</b>
Overall % Increase in Council Tax		<b>3.76%</b>

### SUMMARY

- 3.16 If the Council receives the release of funding which has been assessed by the Government as required by this Council and the ability to implement the budget strategy that is required for expenditure requirements, Rochford could deliver its planned improvements to services - the majority of which are responses to Government requirements. To have the prospect of yet another poor settlement and the potential continuation of holding back grant through the floors and ceiling mechanism will place the Council's plans under severe strain.
- 3.17 Added to this is the potential for a significant limitation on the 2005/06 Council Tax. These factors could result in the need to limit expenditure and service development for the future and the strong possibility of needing to seek expenditure and service reductions at a time when our capacity issues have been recognised under the Comprehensive Performance Assessment.

#### **4 RISK IMPLICATIONS**

Risk assessment is an integral part of identifying and determining the of priorities of the Council and the agreed view on the resources available.

##### **4.1 Strategic Risk**

The Council must plan carefully the delivery of priority services. In doing so account must be taken of the resources likely to be available to the Council, If resources and therefore capacity is restricted the Council must re-examine its priorities to continue to provide balanced services.

##### **4.2 Operational Risk**

All services are subject to resources being available.

##### **4.3 Reputation Risk**

The Council needs to demonstrate that it manages any situation and allocate priorities based on evidence of need.

##### **4.4 Third Party Risk**

Customer's partners and contractors to the Council rely on the services provided which have a direct relationship to the availability of funding.

#### **5 RESOURCE IMPLICATIONS**

- 5.1 As previously mentioned, the major items of funding available to the Council are Government Grant and the Council Tax. Adverse changes can have severe implications for the Council.

#### **6 LEGAL IMPLICATIONS**

- 6.1 The Council must be aware of the need to deliver statutory services.

#### **7 PARISH IMPLICATIONS**

- 7.1 All areas of the District are affected by level of services delivered.

**8 RECOMMENDATION**

8.1 It is proposed that Council **RESOLVES**

- (1) To note the report.
- (2) To request officers to provide updated information when available and to make this current reported information available to the special Members Awayday on the Budget Strategy and future priorities on the 13<sup>th</sup> November.

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**Background Papers:-**

None

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