



Report to: Cabinet

Subject: Budget and Service Plan Process 2006/07 and Formula Grant Distribution Consultation 2006/07

Date: 6 October 2005

Author: Head of Finance

1. PURPOSE OF REPORT

To set out the Budget and Service Plan Process for 2006/07. To seek Members views on the proposed response to the Government's Formula Grant Distribution Consultation 2006/07.

2. BUDGET AND SERVICE PLAN PROCESS 2006/07

2.1 Key Aims

The Council has approved the following Key Aims :

Vision – Healthy, Green; Safe and Clean

KEY AIMS

- Improve Community Safety
- Develop facilities, activities and a safe environment for children and young people
- Improve the Borough's appearance

The Council has already set out its proposals for how these priorities will be delivered in the Strategic Corporate Plan 2005-2008. This shows in addition to the above priorities the Council is committed to continue to work towards national, regional and sub-regional priorities as follows:

- Continued provision of good quality, well managed social rented housing
- An increase in the proportion of waste recycled, coupled with an overall reduction in the amount of waste generated
- Local authority services that are more accessible and customer friendly
- Residents who are well informed about the Council and its work and who participate in civic and community activity

2.2 **Financial Analysis**

In high-level financial terms, the Council's position looks less favourable than it has for a number of years. This may make it more difficult for the Council to develop a Budget/Service Plan that demonstrates progress towards these priorities.

The Chancellor's last Comprehensive Spending Assessment statement indicates a rise in grant of 3.5% in 2006/07 (the increase for the EPCS block, post efficiency savings). The real effect for the Council will depend on the levels of any floors and ceilings set. However, consultation is still ongoing about future distribution methods for Revenue Support Grant and the introduction of 3 year budgeting and the proposed response to this consultation is detailed below at paragraph 3. At present changes have not been made and the council continues to be hampered in its financial planning because of the uncertainty of Central Government Funding. Our Medium Term Financial Strategy (MTFS) assumes a grant increase of 2.5% for 2006/07.

A Council Tax rise at the same level as last year is included in the current Medium Term Financial Strategy, this is at the upper end of what would be acceptable if the Council is to avoid any threat of capping.

The Council already has a number of significant additional financial commitments over the next three years. They include increases in superannuation contributions identified in the latest actuarial valuation which are now to be reviewed again due to the revocation of legislation which it is anticipated will result in further increases to the employer contributions. This additional increase in superannuation contributions is still to be factored into the MTFS.

Government is placing considerable emphasis on increased efficiencies as a means of reducing costs. Gedling has submitted Annual Efficiency Statements that show we are well on target to meet the 3 year target set for this authority. However, the majority of these savings again are already reflected in the Medium Term Financial Strategy. Longer-term

efficiency gains often require up front investment, increasing costs in the short-term. Balances may need to be reassessed as a possible means of funding such developments, especially where external funding is not an option.

These factors highlight the importance of genuine three-year (+) planning; of flagging up efficiencies early; where appropriate moving resource away from non-priority areas; and being clear where we will make future investment in priority areas, even if this is three years or more into the future.

2.3 **Budget Development 2006/07**

Cabinet on 2 September 2004 approved a Resource Development Bid Scoring scheme for ranking budget bids, based on the contribution made to achieving Council priorities, in respect of both Capital and Revenue expenditure. This scheme, details of which are shown at Appendix 1, will continue to be used to rationalise work undertaken in the development of detailed proposals for the 2006/07 budget. Minor amendments to the current scoring methodology are currently under discussion and will be submitted to Cabinet in October for consideration.

Scrutiny Committees have been invited by Cabinet to give views on budget priorities, non-priorities and suggestions for changes to services to inform the budget process.

The outline budget timetable is as follows:

Sept/Oct	Heads of Service to discuss budgets with Portfolio Holders
Sept/Oct	Scrutiny Committee considers budget proposals
Oct	Departments submit Resource Development Bids
Oct/Nov/Dec	Detailed consideration of Budget, through SMT, Cabinet Portfolioholder as appropriate
Nov/Dec	Provisional Formula Grant Settlement announced
Jan	First draft budget/service plan
Jan	Scrutiny Committee consideration of first draft budget/service plan
Feb	Budget Cabinet

March	Budget Council
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Final proposals in respect of Formula Spending Shares and External Support will not be available to the authority until December 2005 and these figures will be significant in terms of deciding the final budget of the Council.

The Council Taxpayer has to meet the difference between the planned expenditure and the Government grant receivable after the use of any balances are taken into account. It is this difference that is used to calculate individual Council Tax bills for 2006/07.

3. FORMULA GRANT DISTRIBUTION CONSULTATION 2006/07

3.1 Central Government is currently consulting on proposals for changes to Formula Grant Distribution Formulae which is used as a basis for the allocation of Revenue Support Grant and redistributed Business Rates. The deadline for consultation responses is 10 October 2005. The aim of the review is to produce a robust and fair system for the distribution of formula grant that will be fit for use in the context of three year Revenue Support Grant Settlements.

3.2 Background to Formula Grants Distribution System

3.2.1 Approximately 25% of public spending in England takes the form of spending by local authorities on services they provide. Most of this money is distributed as grant from central government, with the balance being raised locally via council tax. The Formula Grant Distribution System is concerned with the distribution of a large part of this grant from central government to local authorities, known as Formula Grant.

3.2.2 The Formula Grant Distribution System was last reviewed for the 2003/04 local government finance settlement. Since then, the distribution formula has remained frozen for a period of three years, in order to provide local authorities with some stability in their funding. This three year formula freeze came to an end with the 2005/06 settlement.

3.2.3 The system divides up the finite pot of available grant (which is determined in the biennial spending reviews) by reference to authorities' relative circumstances and their ability to raise council tax. At present the system is based on a number of mathematical formulae covering seven service 'blocks'. These blocks are:

- Education;
- Personal Social Services (PSS);
- Police;
- Fire;
- Environmental, Protective and Cultural Services (EPCS);
- Highways Maintenance; and
- Capital Finance.

The EPCS and Capital Finance service blocks are the only blocks that are applicable to district councils.

3.2.4 Appendix 2 provides further background to the consultation proposals and the full consultation document can be viewed at www.local.odpm.gov.uk/finance/0607/consult/index.htm

3.2.5 For contextual information, the following table provides details of the grant settlement figures received by Gedling in the last three years:

YEAR	GRANT RECEIVED	INCREASE ON PREVIOUS YEAR
2005/06	£7,014,172	8.2%
2004/05	£6,483,878	*7.7%
2003/04	£6,730,786	9.7%

* Housing Benefit Subsidy was removed from the Formula Grant during 2004/05 therefore this increase is calculated on an adjusted figure for 2003/04 which also excludes Housing Benefit Subsidy.

The Formula grant received for 2003/04 was constrained by the Ceilings/Floors mechanism, reducing Gedling's grant by £1.1m. Despite substantial increases in grant for 2004/05 and 2005/06 the full level of grant has still not been received due to the continuing application of the Floors mechanism.

3.3 Response to Consultation Paper

3.3.1 The consultation document contains options and questions for each of the components of the grant distribution system. These are the seven blocks listed above at 3.2.3, other formulae included in the present method of grant calculation and matters of overall context affecting the arrangements for distribution of Formula Grant.

- 3.3.2 Gedling Borough Council's proposed response to the consultation paper's options/questions are attached at Appendix 3. The proposed response focuses on the two service blocks applicable to district council's, the EPCS and Capital Finance blocks and the other formulae in the present method of grant calculation which impact on Gedling i.e. Area Cost Adjustment, Resource Equalisation and Floor Damping.
- 3.3.3 The responses detailed in Appendix 3 select the options that are considered equitable and would secure the best position for Gedling if they were all to be implemented in the revised grant distribution system
- 3.3.4 Although the outcome of the consultation cannot be judged at this stage, due to the complexity of the formulae and their inter-relationship, it is unlikely to have a negative outcome for the Council due to the Floor Damping mechanisms. In the event that all of Gedling's responses to the consultation were incorporated into the final grant distribution system the maximum additional grant available would be in the region of £500,000 but this would be damped i.e. reduced, through the Floor Damping mechanism.

4. RECOMMENDATION

- 4.1 Members are recommended to approve Gedling Borough Council's response to the Formula Grant Distribution Consultation 2006/07, as detailed in Appendix 3.

APPENDIX 1

RESOURCE DEVELOPMENT BID SCORING METHODOLOGY

The first part of the proposed scoring methodology is drawn directly from the Strategic Corporate Plan and focuses on the 3 Council Priorities and the 4 Key Improvement Plans which address national, regional and sub-regional priorities. The scores for each scheme will be based on how well it contributes to the achievement of desired outcomes, as assessed by the Head of Service in the first instance, as detailed below:

EXAMPLE

PRIORITY – IMPROVE COMMUNITY SAFETY	SCORE EACH OUTCOME:	MAX SCORE IN TOTAL
DESIRED OUTCOME:	High Contribution 3 pts	9 points
Reduced levels of recorded crime	Medium Contribution 2 pts	
Reduced fear of crime	Low Contribution 1 pts	
Reduced anti-social behaviour		
Reduced level of accidents		
Communities report concerns		
Communities identify needs		

The maximum score in each of the 7 priority areas will be 9 points to ensure that equal weight is given to each priority.

In addition to the above scores further scoring will be allocated in respect of Asset Management Plan (AMP) priorities as assessed by the Property Management Group. AMP Priority 1, which identifies works which address urgent health and safety issues, will score 25 points and AMP Priority 2, which identifies desirable but not essential works, will score 5 points.

A maximum score of 20 points for Financial Impact will be assessed by Financial Services based on information provided with the scheme bid. The financial assessment will be based on external funding availability, income generation, value for money and risk. If the scheme does not score in any of the 7 priority areas or the Asset Management Plan the financial assessment will not be carried out.

De minimus levels of £10,000 for Capital bids and £5,000 for Revenue bids have been set for this year's budget process.

The full resource development bid scoring methodology is attached.