

AGENDA MANAGEMENT SHEET

Name of Committee	Cabinet	
Date of Committee	21 July 2005	
Report Title	2006/2007 Budget - Available Revenue Resources	
Summary	The report provides members with the first indication of the likely level of revenue resources available for 2006/7 and provides an initial forecast of resources for the following two years.	
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Would the recommended decision be contrary to the Budget and Policy Framework?	No	
Background papers	Comprehensive Spending Review 2004, 2005/6 Budget Resolutions	

CONSULTATION ALREADY UNDERTAKEN: -

Other Committees	<input type="checkbox"/>
Local Member(s)	<input type="checkbox"/>
Other Elected Members	<input checked="" type="checkbox"/> Cllr Mrs Tandy – for information Cllr Roodhouse – for information
Cabinet Member	<input checked="" type="checkbox"/> Cllr Farnell – for clearance Cllr Cockburn – for clearance
Chief Executive	<input type="checkbox"/>
Legal	<input checked="" type="checkbox"/> David Carter - for information
Finance	<input checked="" type="checkbox"/> David Clarke - reporting officer
Other Chief Officers	<input type="checkbox"/>
District Councils	<input type="checkbox"/>
Health Authority	<input type="checkbox"/>

- Police ☐
- Other Bodies/Individuals ☐

FINAL DECISION No

SUGGESTED NEXT STEPS:

- Further consideration by this Committee ☐
- To Council ☒ Council will approve the 2006/7 Budget in February 2006
- To Cabinet ☒ Further reports will be considered by Cabinet as information becomes available
- To an O & S Committee ☒ Budget pressures and proposals for service developments in 2006/7 will be scrutinised at the October/November meetings of the Overview and Scrutiny Committees
- To an Area Committee ☐
- Further Consultation ☒ The forecast of resources outlined in this report will form the basis of the public consultation on the 2006/7 budget to be held in the Autumn

Agenda No

Cabinet - 21 July 2005

2006/2007 Budget - Available Revenue Resources

Report of the County Treasurer

Recommendation

It is recommended the Cabinet:

- Note the forecast 2006/7 Formula Spending Share of £495.967 million, and the resultant government support of £328.219 million.
- Note the projected resource implications of setting a 2006/7 council tax at various levels, as outlined in paragraph 5.4 below.
- Note the implications of the Comprehensive Spending Review 2004 and the introduction of the Dedicated Schools Grant in the medium term as outlined in section 9 of the report.
- Agree to inform our local Members of Parliament of the forecast resource position for the County Council over the medium term.

1 Introduction

1.1 The purpose of this report is to provide a backcloth against which the County Council can begin to develop outline budget strategies for 2006/7. Its particular focus is to review the overall level of revenue resources that may be available to the Council next year. The report is more complicated than in previous years due to the uncertainty caused by the proposed introduction of the Dedicated Schools Grant from April 2006.

1.2 The report focuses on five main areas:

- Formula Spending Share estimates and the resulting likely level of government support.
- Income from the council tax.
- The availability of general reserves.
- The effect of the medium term financial planning framework approved in February 2005 and other known corporate costs.

- The potential resources available over the medium term i.e. 2007/8 and 2008/9.

However, before going on to detail the available revenue resources the report briefly outlines the key implications of the introduction of the Dedicated Schools Grant on the resource forecasts.

- 1.3 This report will be updated in the autumn after publication of the government's consultation papers on the review of the Formula Spending Share methodology when more detail, especially about the likely level of resources will be known.

2 Dedicated Schools Grant

- 2.1 From April 2006 schools and school services will be funded by a specific grant (called Dedicated Schools Grant) rather than by a mixture of Revenue Support Grant, business rates and council tax as at present. As a result spending on schools and pupil services (primarily special educational needs, early years and admissions) will be a stand-alone element in the annual budget setting process, other than if members decide to top-up the Dedicated Schools Grant from corporate resources. LEA services will remain within the annual budget setting process and continue to be funded from corporate resources.
- 2.2 The funding for the Dedicated Schools Grant will be through a redirection of a proportion of Revenue Support Grant and business rates. The balance of the County Council's spending on all other services will be funded from any residual central government support and the council tax. The result of these changes is that in future council tax will fund approximately 75% of net spending compared to the 37% presently.
- 2.3 Cabinet considered a report on, and response, to the government's consultation paper on the introduction of Dedicated Schools Grant on 26 May 2005.
- 2.4 For the remainder of this report funding for schools is still included but is shown separately with specific comment made where the level of Dedicated Schools grant impacts on the resources available to fund the Council's other services.

3 Formula Spending Share (FSS) Estimates

- 3.1 In July 2004 the Chancellor of the Exchequer announced the conclusions of the 2004 Comprehensive Spending Review (CSR). As part of the announcement the national totals for Formula Spending Shares (FSS) were issued. Assuming no further changes in the way FSS is calculated it is possible to estimate FSS levels for Warwickshire for 2006/7.

- 3.2 It is estimated Warwickshire's 2006/7 FSS, including the forecast schools FSS of £249.833 million, will be **£495.967 million**. This represents a £25.882 million, or 5.2%, increase on 2005/6. Warwickshire's 5.2% increase is in line with national figures, once these have been adjusted for the Police FSS and the funding of the capital financing costs of PFI projects.
- 3.3 A breakdown of the estimated FSS increase by service is shown in Table 1.

Table 1: Estimated 2006/7 FSS by Service	2005/6 FSS £m	Estimated Additional FSS £m	Estimated 2006/7 FSS £m
Education - Schools	233.098	16.735	249.833
Education - LEA, Youth/Community	30.116	0.903	31.019
Social Services	114.126	5.720	119.846
Fire	16.388	0.544	16.932
Highway Maintenance	19.307	-	19.307
Environmental, Cultural and Protective Services	37.127	1.269	38.396
Capital Financing	19.923	0.711	20.634
Total	470.085	25.882	495.967

- 3.4 The figures used to estimate the FSS are from the CSR2004 and represent an increase in the assumed need to spend. However, specific grants now also fund a significant proportion of spending particularly in schools and social services. Details of the level of likely specific grant funding for 2006/7 will not be published until the autumn at the earliest and it is not possible to forecast these at this time.
- 3.5 There is currently a review of the way FSS is calculated being undertaken by the government in conjunction with the LGA. At the moment there are no final exemplifications of possible changes available. However, some of the draft proposals if implemented will have a significant impact on the forecast FSS for individual services shown in the table above. An updated report will be brought to Cabinet when the consultation paper on possible options for change is issued later in the summer.
- 3.6 On top of any formula changes resulting from the review typically, data changes may add or subtract £1 million to/from the overall FSS predictions and, exceptionally, more than this. The impact will depend on how Warwickshire data trends compare to national trends. Further information to quantify any possible changes is unlikely to be available before late November.

4 Central Government Support

- 4.1 The level of central government support for local authorities (i.e. Revenue Support Grant and business rates) is dependent on the level of income the government assumes local authorities can raise from the council tax for

spending at FSS. In making this assessment assumptions need to be made on two significant factors:

- Whether the £358 million budget support grant announced by the Chancellor in December 2004 will be on-going beyond the current year, and
- How the additional Dedicated Schools Grant for schools spending over FSS is funded.

4.2 **£358 million Budget Support Grant**

For 2005/6 the government allocated an additional £358 million to local authorities with the objective of keeping the level of council tax increase down. These extra resources have only been guaranteed for 2005/6. The income local authorities are expected to raise from council tax therefore depends on whether the money is eventually provided on an on-going basis. If it is, for 2006/7, the **CSR 2004 assumes a 5.6% rise in the Assumed National Council Tax**. If the money is genuinely one-off and has to be recouped from council tax the assumed national council tax share to be raised increases to 7.5%.

4.3 **Top-up Funding for Dedicated Schools Grant**

Nationally local authorities spend about £200 million more than the schools FSS. In introducing the Dedicated Schools Grant the government is committed to ensuring that overall schools are funded at the same level i.e. still receive the £200 million. It is assumed this £200 million will not be “new” money but will be redirected from elsewhere within overall local authority funding. However, whether this is done on an authority-by-authority basis or shared proportionately across all authorities is not yet known.

In Warwickshire it is estimated the authority spends about £5 million more than the FSS on schools and pupil services. If an authority-by-authority adjustment were included then the grant available for all other services would be reduced by £5 million. If the option of all authorities sharing the burden proportionately is chosen Warwickshire’s share is about £1.8 million.

Warwickshire is estimated to receive £254.833 million Dedicated Schools Grant in 2006/7 (£5 million more than the forecast FSS). However, over the medium term Dedicated Schools Grant will be reduced to the level of FSS (i.e. £5 million lower). The level of Dedicated Schools Grant will depend on how the DfES decides to phase in only funding all schools and pupil services at the level of FSS. It is unlikely any details will be known before the autumn.

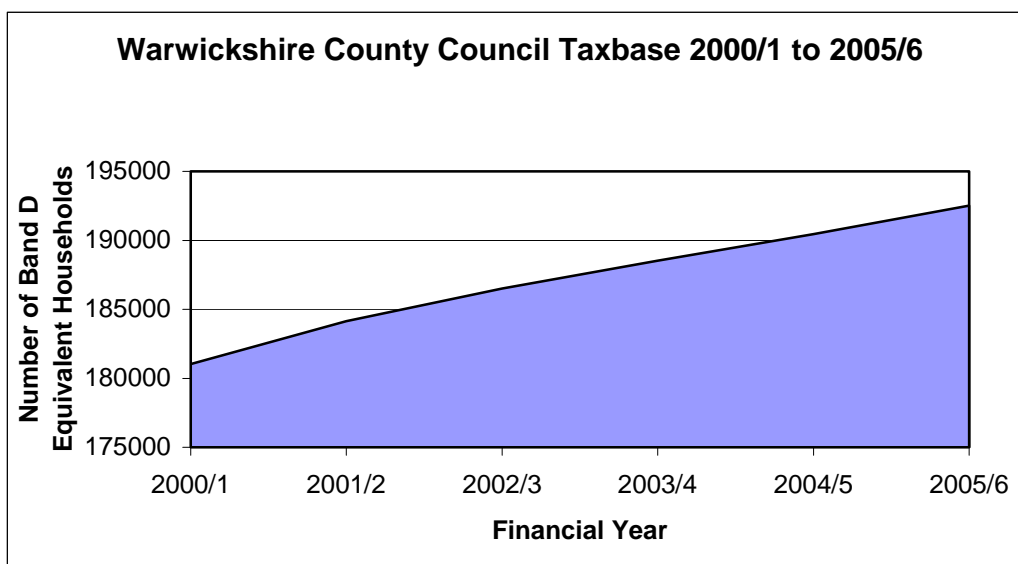
- 4.4 Given the uncertainty over the continuation of the £358 million additional grant and the financing of the top-up needed for Dedicated Schools Grant it is only possible to forecast central government support in a range. For Warwickshire this results in **estimated central government support of between £70.486 million and £76.556 million on top of the estimated Dedicated Schools grant of £254.833 million**. Table 2 below shows the central government support for a range of options depending on the financing of the Dedicated Schools Grant top-up and whether or not the £358 million grant is on-going.

Table 2: Estimated Level of Central Government Support				
	£358 million grant continues		£358 million grant ceases	
	DSG Top-up At Authority Level	DSG Top-up Shared	DSG Top-up At Authority Level	DSG Top-up Shared
	£m	£m	£m	£m
Dedicated Schools Grant	254.833	254.833	254.833	254.833
Other Central Government Support (gross)	78.386	78.386	75.486	75.486
Less DSG Adjustment	-5.000	-1.830	-5.000	-1.830
Other Central Government Support (net)	73.386	76.556	70.486	73.656
Total Grant	328.219	331.389	325.319	328.489

- 4.5 In considering these numbers members need to be mindful that data changes may change these figures. As with data supporting the calculation of FSS further information data trends may add or subtract £1 million to/from the overall predictions of central government support.

5 Income from Council Tax

- 5.1 In assessing the likely income from council tax a number of key variables are not yet known. The figures detailed below represent a prudent approach. As a result changes to the underlying data (available in early 2006) should be in a favourable direction.
- 5.2 The assumptions made when forecasting the likely additional resources available from the council tax are:
- The local taxbase remains unchanged. The trend in the taxbase has been slightly upwards over the past few years and each additional 100 Band D equivalent properties will yield an additional £0.095 million resources.
 - The council tax surplus/deficit due to the County from higher/lower than expected collection rates is forecast as nil. In 2005/6 there was a deficit of £0.602 million that was the first call on the current year's budget. In each of the three years previous to this there had been a small surplus available to support the budget.
- 5.3 The graph below shows the trend in the growth of the council tax base over the last five years.



- 5.4 However, whilst there is some financial benefit to the authority of an increasing taxbase there is not a direct pound for pound benefit. The government takes into account an assessment of the likely increase in the taxbase when calculating the level of central government support for individual local authorities, so reducing the degree of any beneficial effect.
- 5.5 The table below shows the additional resources available to the County Council at a number of different tax levels. These resources are in addition to the £325.319 million to £331.389 million forecast government grant.

Table 3: Estimated Additional Income from the Council Tax		
Percentage Increase in Council Tax	Increase in Council Tax Income compared to 2005/6 £m	Total Council Tax Income £m
0.0%	-	182.789
1.0%	1.828	184.617
1.9% (current consumer price index)	3.473	186.262
2.0%	3.656	186.445
2.9% (current RPI)	5.301	188.090
3.0%	5.484	188.273
4.0%	7.312	190.101
5.0%	9.139	191.928
5.6% *	10.236	193.025
6.0%	10.967	193.756
7.0%	12.795	195.584
7.5% **	13.709	196.498
8.0%	14.623	197.412
9.0%	16.451	199.240
10.0%	18.279	201.068

* Increase in Assumed National Council Tax as assumed in the CSR 2004 assuming the £358 million is allocated on an on-going basis

** Increase in Assumed National Council Tax as assumed in the CSR 2004 assuming the £358 million is not on-going

- 5.6 Whilst the table shows the impact of council tax rises up to 10% these are for information only. It is unlikely any authority will be able to increase the council tax by these amounts without being capped by central government. Capping is the process by which the government decides the budget and level of council tax an authority has set is "excessive" and the authority is then required to reduce its budget and council tax down to a "capped" level. In 2005/2006 the capping limit was a 5% increase in council tax for authorities with the same responsibilities as Warwickshire.

6 Availability of General Reserves

- 6.1 At the end of 2004/5 general reserves are estimated to be £6.345 million. No use of general reserves is planned in the 2005/6 budget therefore the level of general reserves at 1 April 2006 is forecast to remain at £6.345 million.
- 6.2 Legislation requires that the Chief Financial Officer advise members of the minimum level of general reserves it is appropriate for the authority to hold. In February 2005 the minimum level of general reserves necessary was assessed as being £5.5 million. This assessment will be reviewed once the accounts for 2004/5 are closed and then updated on an on-going basis as the 2005/6 financial year progresses. If the minimum level remains unchanged and no use of general reserves is approved during 2005/6 there should be no additional contribution to general reserves required in 2006/7. There may, however, be a small amount that members may wish to consider using to support some one-off spending in the 2006/7 budget.

7 Gross Headroom

- 7.1 "Headroom" refers to the resources available for "new" budget allocations after taking into account the amount of on-going spend (in cash terms i.e. before allowing for inflation etc.) from the current year. The budgeted net spending for 2005/6 approved by Council in February was £493.425 million. However, this included some minor elements of one-off expenditure of £0.114 million that was funded from on-going resources. When this is taken into account the base budget for 2006/7 is £493.311 million.
- 7.2 When all the various elements of the resource forecast are combined, the result is gross headroom of £17.967 million, as shown in Table 4 below. This assumes a council tax increase of 0% and the DSG top-up being shared across authorities and the £358 million funding not being provided on an on-going basis. (This option is chosen as being nearest the mid-point of the forecast grant range). For a council tax increase at the prevailing rate of inflation (i.e. 2.9%) under the same assumptions headroom would increase to £23.268 million. And, for a council tax increase of 5.6% in line with the Assumed National Council Tax it would increase to £28.203 million. If the assumption about the £358 million does not hold and it is provided for as part of central government support the gross headroom would increase by £2.900 million in each case.

Table 4: 2006/7 Gross Headroom	Estimated 2006/7 Resources (0.0% tax increase) £m	Estimated 2006/7 Resources (2.9% tax increase) £m	Estimated 2006/7 Resources (5.6% tax increase) £m
Dedicated Schools Grant	254.833	254.833	254.833
Other Central Government Support	73.656	73.656	73.656
Council Tax	182.789	188.090	193.025
Available Resources	511.278	516.579	521.514
2005/6 Base Budget	-493.311	-493.311	-493.311
Gross Headroom	17.967	23.268	28.203

8 Impact of Previous Budget Decisions

8.1 In February, when approving the 2005/6 Budget, members agreed a medium term financial planning framework. This recommended the Council:

"Subject to a satisfactory settlement in future years, will plan on the basis that

- *FSS increases will be passported* to schools and social services.*
- *The increased cost of the landfill tax will be met through a contribution to the PTES budget.*
- *All services (other than schools and social services) will receive a 2% uplift.*
- *All services will be required to achieve improvements in cost effectiveness equivalent to 2.5% of their budget each year.*
- *Any residual need for resources for e-government will be provided following a full review of progress towards delivering the County Council's e-government agenda."*

* passporting is passing through the increase in the FSS formula for a particular service to allow additional spend of an equivalent amount on those services.

8.2 The medium term financial planning framework would reduce the gross headroom from £23.268 million with a council tax increase in line with inflation to a net position of a £3.904 million shortfall. A detailed breakdown is shown in Table 5 below. A council tax increase of 5.0% would be required to balance the budget under these assumptions. It should be noted that none of these options include any savings due to improvements in cost effectiveness. A 1% saving from improvements in cost effectiveness would generate £2.004 million.

Table 5: Calculation of the 2006/7 Net Headroom, after the medium term financial planning framework (MTFPF)	At a 0.0% Council Tax Increase	At a 2.9% Council Tax Increase	At a 5.6% Council Tax Increase
	£m	£m	£m
Gross Headroom	17.967	23.268	28.203
Less			
- Schools passporting/DSG increase	-16.735	-16.735	-16.735
- Social Services passporting	-5.720	-5.720	-5.720
- 2% Guaranteed minimum budget	-2.967	-2.967	-2.967
- Landfill tax	-0.750	-0.750	-0.750
- E-government	-1.000	-1.000	-1.000
Net Headroom after the MTFPF	-9.205	-3.904	1.031

8.3 The shortfall in resources of £3.904 million is based only on funding the medium term financial planning framework. There are a number of other known corporate costs in 2006/7 that no allowance has been made for at present:

- Repayment of the Fire Modernisation Loan**
 As part of the introduction of the Fire Service Integrated Risk Management Plan the government gave all fire authorities a modernisation loan. Warwickshire's share of this was £0.244 million. The government deferred repayment of this loan in 2005/6 but may require repayment in 2006/7.
- Increase in Capital Financing Costs**
 The 2005/6 budget included an additional £2.796 million to meet the borrowing costs of the approved capital programme. If the level of the capital programme supported by borrowing continues at current levels then similar levels of additional resources will be required in future years. The 2005/2006 budget increase for capital financing costs included the cost of borrowing £23 million to finance the authority's transport capital programme.

9 Impact in Future Years

9.1 The Comprehensive Spending Review (CSR) 2004 gave headline FSS figures for three years, up to 2007/8. It is possible therefore to estimate likely resources and available headroom in much the same way as for 2006/7 up to this time. 2008/9 is beyond the timeframe of the current CSR; therefore in assessing the impact in future years a prudent approach has been taken. For 2008/9 it has been assumed the need to spend and additional resources allocated would increase by 3.0% and the council tax by 2.5% in line with government's medium term forecasts for RPI. The government is expected to introduce three year indicative grant allocations as part of the provisional RSG

Settlement in November 2005 that will give more certainty than before as to the level of government support that can be expected in future years.

- 9.2 If the County Council increases the council tax in line with the rate of inflation and the medium term financial planning framework remains unchanged (excluding the allocation for e-government which is assumed to cease after 2006/7) the shortfall in resources would be £3.484 million in 2007/8 and £0.791 million in 2008/9. These figures are comparable with the shortfall of £3.904 million estimated for 2006/7. Table 6 shows the calculation of these figures in more detail.
- 9.3 The implication of these figures is that unless there are significant increases in council tax above the rate of inflation, a change in the medium term planning framework or resources are generated from efficiencies or service reductions there is unlikely to be any significant money available for growth in the medium term.

Table 6: Available Resources for 2007/8 and 2008/9	2006/7 Forecast Available Resources £m	2007/8 Estimated Resources £m	2008/9 Estimated Resources £m
Dedicated Schools Grant	254.833	268.930	281.247
Central Government Support	73.656	74.630	76.613
Income from Council Tax (increasing by RPI of 2.9% in 2006/7 and 2.5% in 2007/8 and 2008/9)	188.090	192.792	197.612
Total Resources	516.579	536.352	555.472
Less Base Budget	-493.311	-516.579	-536.352
Gross Headroom	23.268	19.773	19.120
Less Medium Term Framework			
- Schools passporting/DSG increase	-16.735	-14.097	-12.317
- Social Services passporting	-5.720	-5.384	-3.757
- Landfill Tax	-0.750	-0.750	-0.750
- Guaranteed Minimum Budget	-2.967	-3.026	-3.087
- E-government	-1.000	-	-
Net Headroom/(Savings Required)	-3.904	-3.484	-0.791

- 9.4 The shortfalls in resources over the medium term shown in Table 6 are based only on funding the existing medium term financial planning framework. There will be a number of significant additional costs facing the county Council over the medium term that no allowance has been made for at present. These include the additional capital financing costs, particularly around the level of borrowing required to deliver the Local Transport Plan and the education capital programme and the need to provide a solution to the waste agenda.

10 Updating the Level of Available Resources

- 10.1 The forecasts contained in this report constitute just the first stage of the planning process for next year's budget. It must be recognised these figures are only provisional and will not be finalised until January 2006. In addition the figures are subject to potentially significant swings depending on the impact of data changes and more importantly the introduction of the Dedicated Schools Grant and the current FSS review. For comparative purposes, at the same stage last year, the forecast of net headroom, after applying the medium term financial planning framework for a council tax increase of 2.5%, was a shortfall in available resources of £3.390 million. The forecast for 2006/7 with an equivalent council tax rise of 2.5% is a shortfall in available resources of £4.635 million.
- 10.2 The potential additional budget pressures in 2006/7 (paragraph 8.3) and the caveats surrounding the level of central government support (paragraphs 4.2 and 4.3) means resources will, at best, be tight in 2006/7 and beyond. It is therefore proposed that the Cabinet will receive a further report after the consultation papers on the review of formula grant and the introduction of the Dedicated Schools Grant are issued as well as after announcement of the 2006/7 provisional Settlement and consultation on indicative three year grant settlements. The former information should be available in late summer and the latter in November/early December.
- 10.3 This is materially worse than usual, so members may wish to write to our local Members of Parliament to let them know about the position and copy this report to them.

DAVID CLARKE
County Treasurer

Shire Hall
Warwick
June 2005