

Overview and Scrutiny Board 30th May 2012

Financial Review of the County Council

Recommendations

- 1) That the Overview and Scrutiny Board consider the briefing note (attached at Appendix A) asking questions in relation to its content and making recommendations as considered appropriate.
- 2) That the Overview and Scrutiny Board consider whether the attached briefing note should be circulated to all Elected Members as a summary of the overall finances of the County Council.

1.0 Key issues

- 1.1 This report has been prepared at the request of the Chair of the Overview and Scrutiny Board. Its purpose is to ensure that all Elected Members have a consistent set of facts to work from when discussing the finances of the authority. It is not intended to be comprehensive, but rather provide a general overview from which more detailed questions can be derived.
- 1.2 The draft briefing note is attached at Appendix A for the Board's consideration. It aims to answer the following questions:
 - How has the spending of the authority changed over recent years and how is it expected to change further in the future?
 - What is the balance of funding between government grant and Council Tax?
 - Why when we are making so many savings is there still a need to put up the Council Tax?
- 1.3 Subject to any comments and amendments, the Board is asked to consider whether the briefing note should be sent to all Elected Members.

Appendices

Appendix A – Finance Briefing 2012/13, Issue 1

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FINANCE BRIEFING



2012/13 Issue 1

30 May 2012

FINANCIAL OVERVIEW OF THE COUNTY COUNCIL

Introduction

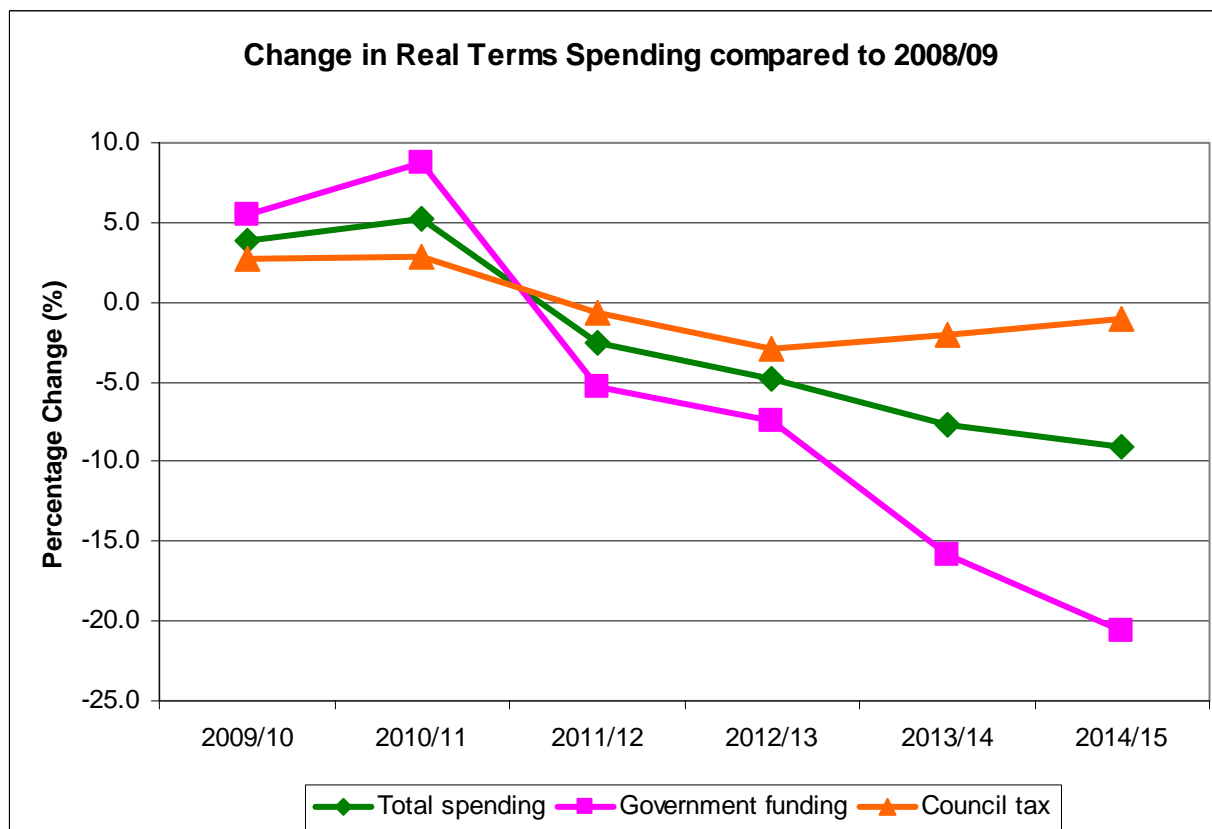
There has been a significant degree of upheaval in the finances of all local authorities over the last two years. This briefing note aims to put this in context by showing the trends in the County Council's spending and how it is funded since 2008/09 and looking forward to 2014/15, the timeframe of the current Medium Term Financial Plan.

Summary

The table below shows how the spending and funding of the County Council is expected to change between 2008/09 and 2014/15.

| | 2008/09 Outturn £m | 2009/10 Outturn £m | 2010/11 Outturn £m | 2011/12 Budget £m | 2012/13 Budget £m | 2013/14 MTFP £m | 2014/15 MTFP £m |
|----------------------|--------------------------|--------------------------|--------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
| Service Spending | 363 | 381 | 398 | 388 | 388 | 383 | 385 |
| Funded by: | | | | | | | |
| • Government Funding | 148 | 157 | 167 | 153 | 153 | 142 | 136 |
| • Council Tax | 215 | 224 | 231 | 235 | 235 | 241 | 249 |

The graph below presents this information in diagrammatic form, but with the figures shown in real terms, that is, they have been adjusted for inflation.



Notes

The measure of inflation used is the Government's preferred measure of the Consumer Price Index. Spending is total spending excluding schools and pupil related services to eliminate the impact of academy schools

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Together the table and graph clearly show the current trend in local authority spending:

- ◆ There has been a significant drop-off in government funding since 2010/11 and this is expected to continue.
- ◆ The pressure to increase the council tax is primarily to offset this loss of government funding and not to increase spending on services. Even with this pressure, by 2014/15 the council tax is forecast to be no higher in real terms than in 2008/09.
- ◆ Once the interplay between Government funding and council tax are taken out of the equation, spending on services has, and is, expected to remain constant in cash terms. The significant requirement to deliver savings is to fund inflation and the increasing demands for services from the most vulnerable members of our community.

Spending

- ◆ The planned spending of the authority in 2012/13 is £388 million, excluding schools and other pupil related services. (This adjustment avoids any distortion of the figures as a result of schools becoming academies).
- ◆ Spending is expected to stay at or slightly below its current level for the next two years.
- ◆ This represents a 6.2% cash increase in spending on services in 2012/13 compared to 2008/09.
- ◆ Inflation accounts for all of this increase and more as, when compared at constant prices, there has been a reduction in spending on services of 5% between 2008/09 and 2012/13.
- ◆ Therefore, all of the increased demand for services, primarily from the ageing population and safeguarding for vulnerable children, along with almost half the cost of inflation has been funded through reductions in spending in other service areas.

Government Funding

- ◆ The most significant financial change for the County Council has been the significant reduction in Government funding since the 2010 Spending Review.
- ◆ From a high of £167 million in 2010/11 it has fallen to £153 million in 2012/13 and is expected to fall further, to £137 million, by 2014/15. These forecasts of future trends have not been adjusted to reflect the local retention of business rates from April 2013 onwards.
- ◆ Government grants fund 40% of spending on services. This has dropped slightly from a high of 42% in 2010/11 and is expected to drop further to nearer 35% by 2014/15.

Council Tax

- ◆ The level of council tax on a given property has been unchanged since 2010/11.
- ◆ Additional funding, equivalent to the income from a 2.5% increase in council tax, has been provided by the government where an authority chose to freeze the council tax. This grant is included in the government grant figures above.
- ◆ The financial plans of the authority going forward are based on an assumption of a 2.5% annual increase in council tax. However, the final level of council tax in any year is agreed as part of the annual budget setting meeting in February.
- ◆ Even with these increases, after adjusting for inflation, the level of council tax in 2014/15 is expected to be 1% lower in 2014/15 than in 2008/09.

Debt Financing

- ◆ 10% of the authority's spending is to service its debt. This has increased from 8% in 2008/09.
- ◆ The authority's debt has been accumulated in the purchase, creation and maintenance of assets worth £1.2 billion.
- ◆ None of the authority's debt has been used to subsidise the revenue budget. This will continue to be the case, as a local authority is not allowed to borrow money to fund its day-to-day activities.