

Financial Position Update

A. Resources for 2005/06 and beyond

1. Prior to the Provisional Settlement, the resource planning for 2005/06, as agreed by the Cabinet in August 2004, was based on the following assumptions:

- (a) An estimated schools passporting increase of some £8.0m.
- (b) A planning assumption of increased formula grant of £8.5m (i.e. only £0.5m more grant for pressures outside of schools).

2. In addition, the planning assumptions identified some particular risks due to the transfer of specific grants into the general formula grant process, notably

- preserved rights grant (Social Services) – this year £9.9m
- residential allowances grant (Social Services) – this year £5.7m
- training support grant (Social Services) – this year £0.562m
- civil defence grant (Chief Executive) – this year £0.207m

In all cases the risks relate to both a loss of funding from the translation (specific grant basis of distribution to Formula Spending Share/ formula grant basis) and, in addition, potential loss due to the floor effect (i.e. any changes in FSS only equates to cash resource for the council if also reflected in the floor adjustment).

3. The actual provisional settlement is set out in Annex A. This is subject to further analysis but shows:

- The Council received the lowest grant increase (at £11.7m or 4.1%) of any County.
- Of the £11.7m additional grant, some £10.2m is required for school passporting.
- The remaining £1.5m, outside schools, represents just 0.6% increase on current spending outside schools.
- The Council appears to have avoided any significant loss, in 2005/06, from the transfer of specific grants (especially in Social Services) but it may be that the risk has simply been delayed until 2006/07 or 2007/08

B. Standstill Pressures

4. The Standstill Pressures have been updated where new information has been received, including the various base adjustments (which total some £5.2m) for the transfer of specific grants, etc, and as part of the normal detailed budget preparation process. There have been a number of minor and technical adjustments.

5. The Schools passporting requirement increase has been revised from £8.0m to £10.2m in line with the provisional FSS increase for schools. The change is

being analysed but a significant element appears to be in relation to three year old provision.

6. The standstill position for 2005/06 considered by Cabinet in August included £2.7m unallocated provision against excess inflation and a number of new risks. Excluding the specific grant issue, at the time of writing many of these remain uncertain including:

Excess inflation

Whilst work on this is continuing the current provision of £700,000 would appear to be adequate.

Landfill Allowance Trading Scheme (LATS)

This scheme, which DEFRA are planning to implement from 1 April 2005, has previously been reported to Cabinet. Annex B to this appendix sets out how it is intended to manage the risk within the overall existing waste disposal budget and reserve provision.

Social Services

A financial recovery plan is in place to address the £2.5m overspend being reported for 2004/05, however this includes the use of one-off resources. Until the ongoing resolution of the overspending is addressed there remains a significant spending risk, over and above the planned increased resources for Social Services for 2005/06 and future years. The Portfolio are developing their plans as a result and this will be presented to the February Cabinet.

Local Government Pension Scheme

Whilst the results of the current triennial valuation have not formally been reported yet it is clear that, - while the investment fund has delivered relative return in the top 10% of local authority funds, equity markets have fallen significantly in absolute terms, since the last valuation - the employers contribution will need to rise over the next few years. This was expected and Cabinet will be aware that the Medium Term Financial Plan has included a provision for this. The detailed impact is being assessed and will be included in the report to Cabinet on 1 February 2005 but at this stage it is clear it will be within the planning assumptions already made.

Bexhill/ Hastings Link Road

The revenue impact of the new Bexhill/ Hastings Link Road will depend upon Government decisions on supporting the costs of progressing the scheme from "provisional" to "full" acceptance as well as the support for the final scheme if approved. In both cases, it then depends on how Government deal with any associated credit approvals i.e. whether the revenue impact is reflected in real government grant increases (cash received).

Other risks

These include the highways re-tendering (tenders will not be fully evaluated before the budget is set in February but costs are expected to increase); delayed discharges; single status; the impact of ceasing contributions to the

E-Government reserve; the impact of the Childrens Bill and major planning enquiries.

7. At this stage the risk provision against these risks has not been changed but evaluation of these risks will continue over the important post provisional settlement period.

8. Taking all of the factors set out above the position for the next 3 years is:-

	2005/06 £M	2006/07 £M	2007/08 £M
Inflation – All services	11.8	12.3	12.9
Additional for passporting	5.0	5.8	4.4
Other Standstill	6.3	7.1	4.8
Excess Inflation Provision	0.7	0.7	0.7
New Risks Provision	2.0	2.0	2.0
Total	<u>25.8</u>	<u>27.9</u>	<u>24.8</u>

of which:-

Schools passporting (inc inflation)	10.2	11.5	10.1
Standstill on other services	15.6	16.4	14.7

Savings

9. In August, Cabinet agreed the following initial financial guidelines for modelling savings:-

	Equates to: <u>£000</u>
<u>Schools – Full Passporting</u>	
<u>Standstill less 0.7% efficiency savings</u>	
Social Services	900
<u>Standstill less 1.0% efficiency savings</u>	
Libraries and Arts	60
Highways maintenance	160
<u>Standstill less 5% efficiency savings</u>	
Chief Executives	380
Corporate Resources	460
Education LEA Block	1190
Transport & Environment	610
(Excluding highways maintenance and Waste PFI)	

10. One of the tasks of the recent 2 by 2 cycle of meetings, under Reconciling Policy and Resources, has been for portfolios to firm up on modelling their savings proposals. It is pleasing to note that, while more work is needed, a lot of progress in that task has been achieved; in particular differential targets within portfolios have been developed to reflect core priorities. That does not, however, mean that there would not be some significant and painful service cuts in a number of areas. Each Chief Officer has produced a commentary which includes an assessment on the impact of savings – see Appendix D.
11. Scrutiny Committees have also been considering the planning proformas (including savings proposals) and their comments are included in Appendix A). A detailed listing of the savings proposals is set out in Appendix E – the proformas which form the basis of this work are available in the Members room.
12. All Departments have included the efficiency saving as a result of the CBOSS implementation. In total these amount to £450,000 in 2005/06 with further base budget savings to follow in 2006/07.

Capital Programme

13. Cabinet considered the position on preparation of the 2005/06 programme at its November meeting. The mid-term review, has provided a much more robust starting point from which to assess future needs and risks. The review resulted in some £9m of current year programme being re-phased to 2005/06 and an overall reduction in cost of £874,000.
14. As reported when the programme was set last February there is very little available for new bids over the next 4 years – bids in the top four priority categories exceed available resources by some £111m.
15. As usual at this stage a review of resources is underway and the Provisional Settlement and further announcements will provide new information. In the meantime the challenge of new bids and consideration of what could be achieved with less resources and any associated risks is ongoing. The results will be reported to Cabinet in February.

Overall Position and Next Steps

16. Incorporating the results of the provisional settlement, the minor changes in standstill pressures and the current guideline savings targets – results in a revised net budget requirement for 2005/06 of £489,969m and an implied council tax increase of 5.1% (compared to the implied increase in August of 5.5% - the difference is very largely explained by the higher than planned grant available after meeting schools passporting). This is set out in Annex C.
17. The Deputy Leader has indicated that he will table proposals for changes in the Reconciling Policy and Resources guidelines at the meeting. Cabinet will wish to consider any changes in the context of: policy priorities; risks over the short to medium term; the impact of savings to date; and its latest view on the associated council tax increase.

