

REPORT TO EXECUTIVE			
PORTFOLIO AREA: FINANCE AND RESOURCES			
Date of Meeting:		29 July 2002	
Public			
Key Decision:		Yes	Recorded in Forward Plan: Yes
Inside Policy Framework			

Title: BUDGET 2003/04 TO 2005/06 –GRANT DISTRIBUTION; SPENDING REVIEW; and BUDGET TIMETABLE

Report of: City Treasurer

Report reference: Financial Memo 2002/03 No 29

Summary:

This report updates members on three issues:-

- a) the Government proposals for the revision to the Grant Distribution system
- b) the publication of the Spending Review covering the three year period to 2005/06,
- c) the proposed timetable for the detailed 2003/2004-budget cycle.

Recommendation:-

Members are requested to

- I. Note the receipt and summary details of the Formula Grant Distribution system for consultation together with the outcome of the Government Spending Review, and that a more detailed report will be made to the Executive on 2nd September.
- II. Note the 2003/04 to 2005/06 budget timetable as shown in Appendix B..

Contact Officer: Angela Brown

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CITY OF CARLISLE

To: The Executive Financial Memo

29 July 2002 2002/03 No 29

BUDGET 2003/04 TO 2005/06

GRANT DISTRIBUTION; SPENDING REVIEW; BUDGET TIMETABLE

1. INTRODUCTION

- 1. The Executive considered the first forecast of the budget position of the Council for the period 2003/04 to 2005/06 on 27th May (Financial Memo 2002/03 No 7), and issued their response to the issues raised. Both the Corporate Resources Overview and Scrutiny Committee on 28th June and full Council on 16th July have now considered the report and the Executive response and these now become the Budget Policy Framework for the 2003/04 budget process.
- 2. This report updates members on three issues:

- the Government proposals for the revision to the Grant Distribution system
- the outcome of the Spending Review covering the three year period to 2005/06.
- the proposed timetable for the detailed 2003/2004 to 2005/06 budget cycle.

1. LOCAL GOVERNMENT FINANCE: FORMULA GRANT DISTRIBUTION

1. The government issued its long awaited consultation document on possible changes to the formulae used to distribute grant to English local authorities on 8th July 2002.
2. Briefly, the document contains 47 options for changes to the grant formulae. These cover all the main services and a number of cross-service issues. Each option has been exemplified on the basis of its effect on 2002/03 Standing Spending Assessments for each local authority. However, these are not the figures that will appear in the 2003/04 local government finance settlement because changes in the overall funding totals which will occur as a result of the forthcoming Spending Review and because there will be changes to data such as population which will not be available until later this year.
3. The options for change which affect District Councils are principally in the Environmental, Protective and Cultural Services (EPCS) Block. The document envisages that ECPS should continue to have two main sub-blocks for upper tier (County) and lower tier (District) services. It proposes to abolish the concurrent services adjustment, which recognises that some 'county' services in two-tier areas are provided by districts and vice versa and to adjust the control totals of the two blocks in recognition of this. The four options presented, together with the effect on Carlisle's 2002/03 Standard Spending Assessment of £11.3m (shown in brackets) are:
 - Elements for resident population, deprivation, density and top-ups for day visitors, commuters, sparsity and ethnicity (Increase of 4.6%; £0.5m).
 - As above, but without adjustments for visitors and commuters and a smaller weight given to deprivation and with more allocated on the basis of unit cost (Decrease of 3.6%; £0.4m).
 - As above, but with higher weight for resident population, day visitors and sparsity and a lower weight for deprivation (Increase of 7.6%; £0.9m).
 - As above, but with a higher weight for the deprivation elements and removing the adjustments for commuters and visitors (Decrease of 1.8% £0.2m).

On the basis of the exemplifications presented, Carlisle gains the most from Option 3. Indeed, District Council's as a whole gain most from this option with an overall increase of 8%; £188.6m – this betterment is at the expense of the London Boroughs. However, for the North West Region as a whole, Option 3 is only the third most favourable option, with Option 4 being the most favourable and Option 1 being second.

The options assume that the other sub-blocks of EPCS (flood defence, coast protection, rent allowance payments, housing benefit administration and national parks) will remain as at present, even though a number are subject to reviews.

1. On Capital Finance, the consultation document notes that the Government will be consulting during the summer on how it should support capital investment in future. However it is likely that existing borrowing will be funded by a similar mechanism to that used currently. All four options presented in the document discontinue the two 'negative' sub-blocks; which take account of interest receipts and interest on reserved capital receipts. The options vary as to how this reduction is allocated among other blocks.

For Carlisle, the effect of the different options on 2002/03 SSA of £11.3m is:

- Option 1- Increase of 4.4%; £0.5m
- Option 2- Increase of 4.7%; £0.5m
- Option 3 - Neutral effect
- Option 4- Decrease of 5.4%; £0.6m

Clearly for Carlisle, Options 2 followed by Option 1 are the most beneficial, and indeed this is so for Shire Districts as

a class. However, again taking the North West region as a whole, only Option 4 produces an overall increase, which is the worst option for Carlisle.

1. The document makes a recommendation that a fixed cost element of £300,000 be included for each shire district, and the ECPS block be scaled down to reflect this. The impact on Carlisle's SSA is an increase of 1.3%; £0.1m
2. In respect of Population changes, the document has options to introduce a 'targeted' grant for authorities whose population is projected to decrease by more than 0.5% or increase by more than 1.5% in the two year period between the population estimates used in the settlement and the settlement year. All other formula grant allocations are scaled down. The effect on Carlisle is relatively neutral.
3. Three options are presented in the document for dealing with the problem of the gap between total formula spending and budgets. Under each of these options total SSA would be uprated, with a compensating increase in the assumed amount contributed from the Council Tax (Council Tax at Standard Spending). The options and effect on Carlisle's Grant are as follows:
 - o Uprate all blocks by a fixed national percentage to eliminate the gap between total SSA's and budgets (Decrease of 0.4%; £32,000)
 - o Uprate each block separately to bring it into line with actual spending for that block (Increase of 5%; £0.4m)
 - o Uprate the control totals for EPCS and Personal Social Services only, by roughly half of the existing gap (Increase of 2.7%; £0.2m).
1. Other matters included in the document, although detailed exemplifications of their effect are not provided are:
 - o How to set a baseline figure which will be used for calculating floors and ceilings, which does not lead to changes in grant for authorities not directly affected by changes in function. The Government proposes to announce the lower and upper limits in the autumn.
 - o Whether or not data should be 'smoothed' in the new system.
 - o A simpler presentation of the new system; identifying £ per head figures for the basic amount and top-ups.
 - o Merging Revenue Support Grant and National Non-Domestic Rates into a single Formula Grant, as set out in the Local Government Bill.
1. It should be noted that the government has said that it will not necessarily limit itself to the options set out in the consultation paper.
2. The consultation period ends on 30th September, and a fuller report on the content of the document, effect of options presented on the Council and suggested Council response will be presented to the Executive at its meeting on 2nd September, the Corporate Resources Overview and Scrutiny Committee on 5th September, and full Council on 10th September, prior to any response being issued to the Government.

1. SPENDING REVIEW

1. Attached as Appendix A is a copy of the Briefing Circular issued by the Local Government Association summarising the outcome of the Government Spending Review covering the three year period 2003/04 to 2005/06 – the same period as covered by the Council's three year budget framework to be agreed in February.
2. The City Treasurer will be attending a presentation being sponsored by the LGA on 30 July and which includes speakers from HM Treasury and the Office of the Deputy Prime Minister as well as prominent local government and academic figures. This will enable a more detailed analysis to be made at a future meeting of the Executive.
3. From a local government perspective, the scale of spending increase being proposed over the three year period is significant and is to be welcomed. There is to be a real term increase in the order of £5.6bn (average 4.2% pa), by the end of the period. However this increase is heavily biased towards three of the first tier services (Education, Personal and Social Services and Police).
4. Only in the first year of the period covered by the review does the Environmental, Protective and Cultural services block, (from which District Council's receive their SSA spending powers provision) receive any significant increase (5.3%) whilst in the second and third years, the increases of 2.8% and 3.3% barely cover inflation.
5. The review provides for government grant increases of 7.7% (2003/04); 4.9% (2004/05) and 6.9% (2005/06), broadly in line with the SSA increases, thus maintaining the current level of external grant at approximately 73.5%. In consequence, the increased contribution to be raised from Council Tax is put at 6.2% pa. After allowing for (say) 0.5% growth in the tax base, this suggests that tax increases will, on average, be twice the level of projected inflation over the period. This is before taking account of the impact which the review of the grant distribution might have on the grant and tax position of individual authorities.

2. BUDGET TIMETABLE 2003//04 to 2005/06

1. Detailed budget guidance will shortly be issued to Service Mangers to aid them during the budget process. The overview timetable is attached as Appendix B to this report.
2. There will be a need to arrange special meetings to enable the Executive to consult with interested taxpayers and with the Staff Trade Unions and also to enable the Overview and Scrutiny (Corporate Resources) to consider and respond to the Executive budget proposals

5. CONSULTATION

5.1 Consultation to Date. Not Applicable

5.2 Consultation proposed.

This report will be considered by the Corporate Resources Overview and Scrutiny Committee on 05 September 2002.

6. STAFFING/RESOURCES COMMENTS

Not Applicable

7. CITY TREASURER’S COMMENTS

As stated within the report

8. LEGAL COMMENTS

Not Applicable

9. CORPORATE COMMENTS

Not Applicable

10. RISK MANAGEMENT ASSESSMENT

Not Applicable

11. EQUALITY ISSUES

Not Applicable

12. ENVIRONMENTAL IMPLICATIONS

Not Applicable

13. CRIME AND DISORDER IMPLICATIONS

Not Applicable

14. RECOMMENDATIONS

- 1. Members are requested to
 - i. Note the receipt and summary details of the Formula Grant Distribution system for consultation together with the outcome of the Government Spending Review, and that a more detailed report will be made to the Executive on 2nd September.
 - ii. Note the 2003/04 to 2005/06 budget timetable as shown in Appendix B..

D THOMAS

City Treasurer

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City Treasury
Carlisle

22 July 2002

AB/EL/f290203

LGA Briefing Circular No. 234 – Spending Review 2002

Spending review 2002

Monday 15th July 2002

Local government finance

The 2002 Spending Review provides an average increase of 4.2% for local government services in real terms over the three years to 2005-06.

Total SSAs will rise in cash terms by 7.3% in 2003-04; 5.3% in 2004-05 and 6.7% in 2005-06. This is supported by net Aggregate External Finance (AEF) increases of 7.7% in 2003-04, 4.9% in 2004-05 and 6.9% in 2005-06. This implies an increase in locally

financed spending of around 6.1-6.2% for the three years of the spending review. Full details are set out in the Annex.

Capital investment - the Spending Review announces new spending plans to provide for a "10.7% annual average increase in local authority investment through capital support and PFI from 2002-03 to 2005-06". No details of departmental spending programmes were published. PFI figures for the years covered by the SR are as follows:

- 2003-04 (Baseline) - £1800m
- 2003-04 Plans - £1940m
- 2004-05 Plans - £2330m
- 2005-06 Plans - £2700m

Office of the Deputy Prime Minister's local government programme

Neighbourhood Renewal Fund - there will be an increase in the Neighbourhood Renewal Fund over the SR period as follows:

- 2003-04 - £400m (already planned)
- 2004-05 - £450m
- 2005-06 - £525m

Capacity building and intervention - a new fund of £135m has been announced to support capacity building and intervention in local authorities. This will be phased as follows:

- 2003-04 - £40m
- 2004-05 - £45m
- 2005-06 - £50m

Local PSAs - Performance reward grants of £635m over the SR period were announced for authorities who achieve stretching targets agreed with central government through local PSAs. In addition £141m will be provided for pump priming grants for a second round of local PSAs to start in 2004.

Electronic service delivery - additional resources for the Local Government On-line programme were announced with funding as follows:

- 2003-04 - £215m
- 2004-05 - £189m
- 2005-06 - £107m

Ring fencing - the Spending Review White Paper says that the Government is 'determined to minimise the overall level of ring-fencing to promote local flexibility. It will test ring fenced grants against the criteria set down in the Local Government White Paper and will end existing ring-fenced grants where they are longer necessary. This process will take place in autumn 2002, so, as in previous spending reviews, no figures are provided for the overall level of ring-fenced grants. However the white paper says that around £2bn of existing ring-fenced grants will be transferred into SSAs by 2005-06, consisting of over £1bn of DfES grants and £0.8bn DH grants.

Education

- Annual spending on education and skills is due to rise by £12.8 billion between 2002-3 and 2005-6 – spending is set to rise in real terms by 6% per year in the three years to 2005-6. By 2005-6 UK education spending is forecast to rise to 5.6% of GDP (from 4.6% in 2000-2001);
- The review announced a significant increase in School Standards Grant – paid directly to headteachers. Extra funding of £325 million revenue capital from 2003-4 will rise to £375 million a year from 2004-5. This means that a typical primary school will receive at least £50,000 per year (an increase of £10,000), with a typical secondary school due to receive at least £165,000 (an increase of £50,000);
- £175 million a year from 2003-4 on a leadership incentive grant in at least 1,400 secondary schools in Excellence in Cities, Education Action Zone, excellence clusters and other areas facing similar challenges
- The review portrays an average annual real terms rise in education standard spending of 3.4% from 2002-3 to 2005-6 (from £22.5 billion in 2002-3 to £26.8 billion in 2005-6);
- A "significant further boost" to modernise school buildings and ICT facilities – capital investment will rise to £7 billion per year by 2005-6 (of which £1.2 billion will come through the Private Finance Initiative);
- Education Maintenance Allowances of up to £1,500 per year will be rolled out nationally from September 2004;
- A "step change" in post 16 funding from 2002-3 with three year budgets and 100% end year flexibility to local LSCs. A review will take place to look at how regional development agencies can play a wider role in developing and implementing regional skills strategies, for arrangements to come in by April 2004;
- An extension of the Sure Start programme and funding "to create at least 250,000 childcare places" with a free nursery place for all three olds whose parents want one by September 2004.

Personal Social Services

- The Spending Review confirms the overall increase in funding announced in the Budget in April 2002 for social care. While the LGA welcomes the additional funding we believe that this will not be enough to address the severe pressures on social care budgets.
- Local authorities budgeted to spend £925 million (10.5%) above SSA on social services in 2001/02 and £1,198 million (13.0%) above SSA in 2002/03. This continues the trend of a growing gap between central government provision and local authority spending in recent years.
- There will be major pressures in both the current financial year (2002/03) and in the next financial year. Only £160 million of the additional £360 million for 2003/04, announced in the Budget in April 2002, will be used to support PSS SSAs.
- Two thirds of the spending above SSA is accounted for by children's services. This is mainly the result of the rise in the number of looked after children. This number increased from 49,300 to 58,100 in the period 1994 to 2000, equivalent to a rise of 13% in the rate of children being looked after.
- The governments intention to introduce a 'bed blocking' penalty framework will only increase pressures on social care budgets and does not take account of the whole system working needed to effectively reduce the instances of delayed discharge.

Transport

- The spending review announced an annual average growth in the Department for Transport's budget of 12% each year from 2002-03 to 2005-06, rising from £7.7 in 2002-03 to £11.6 Billions in 2005-06. The Government says that expenditure will be £4 Billions higher in 2005-06 than in 2002-03.
- The headline total includes the bringing forward into the Spending Review of £370 million from unallocated capital within the Ten Year Transport Plan, to accelerate delivery.
- It also includes £1 Billion that is being added to the Ten Year Transport Plan to support the delivery of the improvements to the London Underground to be provided through Public Private Partnership.
- The total also includes a proportion of public investment that is delivered through capital grants to the private sector, mainly in the rail industry. These are now shown as resource in the Department for Transport's budget. This has been due to the move to private sector standards of financial reporting.
- There will be a review of the statutory processes governing the planning and implementation of transport projects.
- There is no specific mention of an increase being given to local authorities beyond that already announced under the Ten Year Plan.

Housing and housing benefit

- The spending review announced an increase in funding overall for housing from £4.8bn 2002/3 to £5.9bn 2005/6.

This amount will be used primarily for:

- more affordable housing to rent or own in London and the South East (including additional provision for key workers)
- additional resources to implement market renewal strategies in areas blighted by low demand and abandonment
- increased investment through arms length management companies to improve the condition of the social housing stock

The Spending Review also proposes:

- creating single housing inspectorate for all types of social landlord (council and housing associations)
- establishing strong regional housing bodies to integrate housing investment decisions with those on economic development, planning & transport
- extending existing housing PSA (to bring all social housing into decent condition by 2010) to include "increasing the proportion of private housing in decent condition occupied by vulnerable groups"

Housing benefit

The spending review:

- sets new target to reduce fraud and error in housing benefit by 25% by 2006

- proposes further reforms to housing benefit administration supported by substantial new investment

Annex

SR2002 (July 2002) Key Numbers (£ million)

Standard Spending Assessments	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Education	22,503	23,928	25,285	26,828
Personal Social Services	9,231	10,023	10,715	11,856
Police	3,577	3,995	4,195	4,395
Fire	1,521	1,583	1,653	1,703
Highway Maintenance	1,955	2,005	2,055	2,105
Environmental, Protective and Cultural Services	8,961	9,435	9,703	10,024
Capital Financing	2,224	2,648	2,838	3,323
Total of Standard Spending Assessments	49,972	53,616	56,443	60,233
Net Aggregate External Finance	36,774	39,596	41,552	44,432
Locally Financed	13,198	14,020	14,891	15,801

SR2002(July 2002) Key Numbers	£ million	Year on Year Change		
Standard Spending Assessments	2002-2003	2003-2004	2004-2005	2005-2006
Education	22,503	6.3%	5.7%	6.1%
Personal Social Services	9,231	8.6%	6.9%	10.6%
Police	3,577	11.7%	5.0%	4.8%
Fire	1,521	4.1%	4.4%	3.0%
Highway Maintenance	1,955	2.6%	2.5%	2.4%

Environmental, Protective and Cultural Services	8,961	5.3%	2.8%	3.3%
Capital Financing	2,224	19.1%	7.2%	17.1%
Total of Standard Spending Assessments	49,972	7.3%	5.3%	6.7%
Net Aggregate External Finance	36,774	7.7%	4.9%	6.9%
Locally Financed	13,198	6.2%	6.2%	6.1%

(all figures are adjusted for transfers since Spending Review 2000. The figures for Police for 2002/03 are net of a transfer of £262m to specific grant ;this is included in SSA figures for 03/04)

Standard Spending Assessments	2002- 2003	2003- 2004	2004- 2005	2005- 2006	Total
Education	22,503	1,425	1,357	1,543	4,325
Personal Social Services	9,231	792	692	1,141	2,625
Police	3,577	418	200	200	818
Fire	1,521	62	70	50	182
Highway Maintenance	1,955	50	50	50	150
Environmental, Protective and Cultural Services	8,961	474	268	321	1,063
Capital Financing	2,224	424	190	485	1,099
Total of Standard Spending Assessments	49,972	3,644	2,827	3,790	10,261

Appendix
B

Proposed Budget Timetable 2003/04 to 2005/06

<u>Executive Meeting</u>	<u>Overview & Scrutiny</u>	<u>Council Meeting</u>	<u>Detail SUMMARY</u>
27/05/2002	28/06/2002	16/07/2002	Consideration of First Budget Forecast and Medium Term Financial Plan to 2005/06
29/07/2002	05/09/2002	10/09/2002	Review of Revenue Support Grant Distribution
29/07/2002	05/09/2002	10/09/2002	Budget Timetable
02/09/2002	05/09/2002	10/09/2002	Council response to new Formula Grant Distribution System
02/09/2002	05/09/2002	10/09/2002	Consideration of Charges Review Options
30/09/2002	24/10/2002		Update of Three Year Budget Projections. Presentation of Central Department Estimates (or possibly 28th October) Initial Consideration of New Bids and Saving Proposals
28/10/2002	28/11/2002		Presentation of Service Department Estimates
25/11/2002	28/11/2002		First Summary of General Fund, HRA and Capital Position
19/12/2002		14/01/03	Consider Government proposals on Finance settlement 2003/04 due to be announced 27 November
	TBA		Consider overall budget report and agree Budget Proposals (GF; Savings; Bids;HRA; Capital) for consultation
13/01/2003			'Spare' Executive meeting date

BUDGET CONSULTATION PERIOD

(20/12/02 to 20/1/03 - 4 week minimum)

Executive - Wider Consultation with Business
Community/Parishes/Staff etc

TBA	14/01/2003	Set Council Tax Base and Precept Payment dates
27/01/2003	Consideration of Consultation feedback and make final recommendation to Council	
03/02/2003	'Spare' Executive meeting date	
	06/02/2003	Special Budget Meeting Revenue Support Grant Final Settlement Adjustments Approve Expenditure Plans (Budget Resolution)
10/02/2003	18/02/2003	Special meetings - would be required if the Council refer the budget back to the Executive
	04/03/2003	Backstop date for formal setting of Council Tax