

TORBAY COUNCIL

Report No: **F/18/04**

Title: **Final Local Government Finance Settlement 2004/05**

To: **Executive**

16 February 2004

1. Introduction

- 1.1 At its meeting on 9 December 2003, Executive considered report F/15/03 – Provisional Local Government Finance Settlement 2004/2005 from the Director of Finance. This report outlined the Provisional Local Government Finance Settlement and its impact upon the Council. This report also contained a summary of the budget process for 2004/05 and the consultation to be undertaken with Stakeholders.
- 1.2 A budget briefing was presented to Members and Stakeholders on 11 December 2003 and Report F/15/03 was considered by Council at its meeting on 18th December 2003. Having taken into account all of these matters, the Council asked the Director of Finance, in consultation with the Leader of the Council and the Executive Member of Finance, to set provisional spending targets for each Directorate.
- 1.3 Each Director and Executive Member was invited to report back to the Overview and Scrutiny Board on the implications of these targets. The Board have considered the implications of the budget reports and a separate report is included on this agenda, which outlines the Board's views and recommendations. This report will include any issues that the Board want the Executive to consider with particular reference to the risks associated with each of the budget options and it will contain the views of Stakeholders.
- 1.4 The purpose of this report is to provide Members with the outcome of the final Local Government Finance Settlement and how it impacts upon the Council's overall financial position.

2. Relationship to Corporate Policies

- 2.1 The Revenue Budget is used to deliver all the Council's policies and objectives and therefore covers all themes.

3. Recommendation

- 3.1 That Executive note the outcome of the Final Local Government Finance Settlement and take into account the Final Settlement when considering the level of the 2004/05 budget.

4. Reason for Recommendation

- 4.1 The Council has a statutory obligation to set a budget each financial year and must take into account all factors when setting the budget.

5. Background

- 5.1 The Provisional Local Government Finance Settlement was announced on 19 November 2004. The settlement provides all local authorities with an indication of the level of grant they will receive to support revenue expenditure during 2004/05. The settlement was announced approximately 2 weeks earlier than in previous years. The main reason for this was to give Schools more time to set their budgets.
- 5.2 In addition, all local authorities had to inform the Department for Education and Skills (DfES) of the minimum level of Schools funding for 2004/05 by the end of December 2003. The Director of Learning and Cultural Services wrote to the DfES informing the department that Torbay would set a minimum Schools budget of £55.790m for 2004/05 which is the statutory minimum level. As in previous years the government will expect local authorities to pass on the increase in funding for schools to be directly linked to the increase in FSS irrespective of whether an authority currently spends above FSS.
- 5.3 This report summarises the main issues arising from the final settlement which was announced on 29 January 2004. This report should be read in conjunction with the outcome of the views of the Overview and Scrutiny Board in relation to the spending targets set for directorates and the report on the Council's Medium Term Financial Plan.

6. Local Government Finance Settlement

- 6.1 The Government announced the final settlement on 29 January 2004 and it was timetabled to be debated in the Houses of Parliament on 5 February 2004. At the time of writing this report it was expected that it would be accepted without amendment. The final settlement shows a rise in Torbay's Formula Spending Share (FSS) and level of grant from that announced on 19 November 2003 and reported to Executive on 9 December 2003. Based upon the formulae used within the settlement, the Government has assessed that Torbay Council's FSS is £136.241 million in 2004/05 and will receive external grant in the form of revenue support grant and national non-domestic rates amounting to £92.256m.

Formula Spending Share (FSS)

- 6.2 The final FSS is £45,000 higher than the provisional FSS announced last November. As the government have made no changes to the methodology of the FSS formulae the increase is due to the use of the latest data e.g. updated taxbase information from all authorities, updated data for capital finance and any errors identified by local authorities and the Office of the Deputy Prime Minister (ODPM). A summary of the final FSS compared to the provisional FSS and adjusted 2003/04 FSS is shown in appendix A.
- 6.3 As in previous years, the Council prepared a detailed response to the FSS settlement and the Council challenged the data used within the FSS. This included the loss in FSS for Highways due to the data used by the ODPM for calculating the annual traffic flow within Torbay and the understatement of the number of visitors to Torbay. However, despite the representations made, the government has not revised the data used in the Final Settlement to address these concerns.
- 6.4 A copy of the Council's letter of representation to the Government over the issues arising from the provisional settlement is attached as Appendix B. Torbay received a response from the ODPM on 30 January 2004. A copy of the response from the ODPM has been attached to this report as Appendix C.

7. Overall Financial Position

- 7.1 As stated in paragraph 6.1, the final settlement has indicated that the Council will receive £92.256 million in external funding in the form of Revenue Support Grant (RSG) and National Non-Domestic rates. This is an increase of £879,000 when compared to the provisional settlement.
- 7.2 In addition to the provisional settlement, which was announced on the 19 November 2003, the Chancellor announced in his Pre-Budget Report on 10 December 2004, that local government would receive an additional £340m of RSG. Torbay was allocated an additional £797,000 from these new monies. The Final Settlement has resulted in Torbay receiving a further £100,000 due to the final changes outlined in paragraph 6.2. Torbay will receive a 6.9% increase in grant when compared to last year on a like for like basis which compares to a 5.5% increase nationally

8. Budget Risk Assessment

- 8.1 The Local Government Bill 2003 introduced 2 new statutory responsibilities upon the Council's section 151 officer. These relate to the robustness of the budget estimates for each financial year and the adequacy of the Council's reserves. This new requirement is contained within Clause 25 of Part II of the Bill. The Revenue Budget report presented to Members on 26 February 2004, setting out the revenue budget for 2004/05 will contain any updated information with regard to how the Council is meeting this new statutory requirement.
- 8.2 Each year, the Council goes through a detailed budget process which results in the Council setting a revenue budget for the financial year and setting the Council Tax. Torbay has always considered the robustness of the budget estimates as part of this process and reviews the adequacy of reserves when considering and agreeing the final revenue budget for the year. There are a number of legislative and regulatory requirements which require these issues to be taken into account when setting the budget e.g. sections 32 and 43 of the Local Government Act 1992 and the Director of Finance's section 114 responsibilities with respect to managing a balanced budget for the authority. The new requirements contained within the 2003 Bill formalise a number of these functions, which has always been implicit within the Council's previous budget setting process.
- 8.3 When recommending a budget to Council for 2004/05, Executive Members should give consideration to the Government powers contained within Clause 26 of the Bill with respect of the level of general fund balances and reserves. As part of the budget process I make an assessment as to the level of the Council's reserves and balances and this is outlined in paragraph 8.4 below. The Secretary of State has reserve powers to set a minimum level of general fund balances and reserves for local authorities. This may occur as a consequence of the Director of Finance reporting that the level of reserves is inadequate.
- 8.4 To comply with the new legislation the Executive have already considered a report on the level and adequacy of the Council's reserves and balances on 9 December 2003 (report number F/14/03). Paragraph 5.11 of this report stated the following:

Chief Finance Officer Statement - I am satisfied that the Earmarked Reserves, including Insurance Reserves are adequate for the Council's Financial Plans and to meet any known or predicted liabilities.

The Councils General Fund Reserves of approximately £2.2m represents 1.6% of the Councils overall budget. This is below the average level for Unitary Authorities and it is in my opinion that this level should not be reduced, as balances would fall below a prudent minimum level.

- 8.5 The review of reserves identified a Contingent Liability Reserve, originally set up to meet two specific liabilities, was no longer necessary. Executive agreed to release this reserve with £150,000 added to the Council's general fund balances and £100,000 to be earmarked to support the 2004/05 budget if required. Otherwise these monies would also be allocated to the Council's general fund balances.
- 8.6 As a result of this recommendation, the Councils general fund balances is approximately £2.350m. This represents 1.7% of the Councils overall budget. This is below the average level for Unitary Authorities and it is in my opinion that this level should not be reduced, as balances would fall below a prudent minimum level. I recommend that the Council should budget to contribute to general fund balances in future years, but not necessarily in 2004/05 and this will form part of the Council's Medium Term Financial Plan.
- 8.7 As part of the budget report to Council setting the 2004/05 budget, the level and use of reserves will be formally determined by Council. At this meeting I will reconfirm or amend my recommendation with respect to the adequacy of the level of reserves and general fund balances as identified in paragraph 8.4 above.
- 8.8 In addition, the budget report to Members will include a statement showing the estimated opening balance for general fund reserves and any budgeted contribution to or from the reserve. A statement will also be included outlining the extent to which reserves are financing ongoing expenditure i.e. the contribution of £50,000 to fund renovation grants during 2003/04. In addition, I will include a statement on the adequacy of reserves and provisions for the forthcoming and future years as part of the medium term financial plan, which you will be considering as a separate agenda item.
- 8.9 The production of a robust budget is essential for the effective financial management of the authority. A key priority of this year's budget process has been to align service delivery and financial planning which involves matching and moving resources to deliver service priorities contained within the Council's Strategic Plan – Transforming Torbay and the Community Plan.
- 8.10 The process this year has been informed by engaging Member and Stakeholder involvement in the budget process through the Overview and Scrutiny Board meetings. Executive will receive a separate report on this agenda outlining the recommendations of the Overview and Scrutiny Board with respect to the 2004/05 spending targets. In addition to the Council's Strategic Objectives driving the budget process for 2004/05, the Business Planning has supported this process, through service managers identifying their resource needs based upon meeting their objectives and key targets as contained within the Strategic Plan.
- 8.11 There are a number of risks which can arise during the development of the budget. These include inaccurate assessment of costs, failure to identify emerging risks and service pressures, resource allocation not linked to strategic objectives, a lack of involvement of Members and Stakeholders and weak budgetary control. To mitigate against these risks a number of assumptions have been made in the development of the budget for 2004/05 to ensure a robust budget is set. These include:

- the assessment of inflation i.e. pay and prices increase;
- an assessment of the level of interest rates which is contained within the Councils Treasury Management Strategy;
- the assessment of increased demand for services;
- aligning service planning and financial planning;
- an assessment of the level and timing of capital receipts;
- an assessment of the revenue impact for unsupported borrowing;
- an assessment of the revenue consequences of any capital investment.

These can be amplified upon verbally if Members so wish at the meeting.

- 8.12 The main risk once the budget has been set is inadequate financial control. This can be minimised by effective and regular monitoring of the budget throughout the year. Torbay has in place a series of regular revenue and capital monitoring reports, which are presented to the Executive and the Overview and Scrutiny Board. A timetable for the submission of monitoring reports to committee will be published at the start of the new financial year. In addition, key volatile budgets are identified at the beginning of the financial year and are monitored on a monthly basis to the Council's management team.

9. **External Levies**

- 9.1 As from 1 April 2004, the Fire Authority is no longer a levying body. This change means that the Fire Authority is a precepting authority like the Police authority and is no longer included within the Council's budget requirement. The Fire Authority will be setting their own Band D amount for council tax which will be included on the council tax bill to local residents.
- 9.2 There are now three remaining External Levies which form part of the Council's budget requirement, however, the Council has no control over the budget set by each of the levies. The cost of external levies in 2004/05 are estimated to be £294,000. The three public sector organisations who raise revenue by levying a charge on Torbay include the Environment Agency, the Devon and Cornwall Magistrates' Courts Committee and Devon Sea Fisheries. The estimated levy charged by each of the above for 2004/05 financial year is shown in the table 2 below along with the levy for the current year:

Table 2

	2004/05	2003/04	Increase/ (Decrease)	%
	£m	£m	£m	
Devon Fire Authority	0	4.703	(4.703)	(100)
Environment Agency *	0.030	0.768	(0.738)	(96.0)
Devon and Cornwall Magistrates' Courts Committee *	0.224	0.214	0.010	4.7
Devon Sea Fisheries *	0.040	0.036	0.004	11.1
Total	0.294	5.721	(5.427)	(94.9)

* Estimated Levy - to be confirmed for 2004/05.

- 9.3 The levy for the Environment Agency has fallen significantly. This is due to a change in the funding for flood and coastal defence. Under the old system local authorities received government funding through the annual finance settlement. From April 2004, the majority of the levies payable by local authorities will be rolled up into a single annual Department of Environment, Food and Rural Affairs grant paid directly to the Environment Agency. There has been a compensating reduction in the Council's FSS both for this item and the Fire Authority.

10. Council Tax Levels and Capping

- 10.1 At the time of writing this report, there have been no formal declarations of Council tax rate increases. This year's settlement has been announced against the **serious threat** of capping by the Government. At the time the provisional settlement was announced the Minister for Local Government made the following statement on 19 November 2003:

"We are clear that the current trend in council tax rises is not sustainable. Against the background of further substantial increases in government grant and the extensions of freedoms and flexibilities to local authorities, large council tax increases are simply not acceptable. "

- 10.2 On the 10 December, additional resources for local government were announced. The Minister for Local Government made the following statements:

"Given the scale of the investment in local services and the scope for efficiency improvements in local government, the Government believes next year local authorities must aim to deliver council tax increases in low single figures. (This is also highlighted in paragraph six of the letter received from the ODPM - appendix C). Unreasonably large council tax increases will neither be justified nor acceptable. So the government is prepared to use targeted capping powers next year if that proves necessary."

"Ministers will look at council tax rises very closely and they may also take account of the trend of increases over more than one year. The Government has warned local authorities – including fire and police authorities – that they are prepared to use capping powers in 2004-05 if necessary."

- 10.3 In January 2004, the Minister wrote to over 30 local authorities expressing his concern about the potential level of council tax increases. Subsequently, a significant number of other authorities have received a similar letter. Torbay was one of the authorities that received the original letter from the government. A copy of this letter is attached as appendix D. The Council has responded to the letter of 14 January 2004 and is also seeking a further meeting with the Minister, to discuss the situation.
- 10.4 There is very little doubt that the threat of capping is real and this is one of the key issues the Executive must consider when determining the overall budget for Torbay and the consequential recommendation to Council of the Council Tax level for 2004/05. Torbay is committed to implementing its Improvement Plan and to be rated a Fair Authority according to the CPA process by the end of 2004. The progress Torbay makes over the next financial year is dependant upon the resources it has available during 2004/05. However, this has to be considered in light of the serious threat of capping and the longer-term impact this will have upon Torbay's medium term financial plan.

- 10.5 Therefore, some of the issues that Members will have to weigh up, when determining the Council Budget and consequentially the level of Council Tax are:
- (a) the ability of the local council taxpayers to meet significant increases in council tax;
 - (b) the resources required to fund the Improvement Plan and achieve the rating of “Fair” by the end of 2004;
 - (c) the need to continue to maintain good quality services throughout the Council, as reflected in the CPA and improve those which were identified as in need of improvement;
 - (d) the views of the Overview and Scrutiny Board and the Stakeholders which formed part of the consultation process for setting the 2004/05 budget.
 - (e) Governments requirements to meet certain levels of services as specified in key performance indicators and service plans;
 - (f) The threat of capping and the impact this will have upon the Council’s medium term financial plan.

These are by no means all of the issues but are perhaps some of the more significant ones, nor are they in any prioritised order.

- 10.6 As with the precedent set in previous years, at the time of writing this report, the Government has not set any capping criteria. However, as stated above the Government has made it clear that they expect local authorities to budget prudently and minimise the level of council tax increases in 2004/05. The Minister has also stated that the government will be looking very closely at next years council tax increases and may also look at past trends in council tax increases as well as rises in 2004/05. The government’s capping powers are contained within the Local Government Act 1999 as reserve powers.
- 10.7 Without knowing the capping criteria, it is impossible for officers to advise Members on what will be an acceptable level of council tax increase for next year or the action the Minister for Local Government might take with respect to capping. If the Government uses the capping powers it has available, they could direct Torbay to reduce its budget requirement and council tax in 2004/05 or they may set a ceiling on the level at which Torbay can increase the council tax for 2005/06 and future years.
- 10.8 When considering the 2004/05 budget, Members will need to be mindful of the reserve powers that the Secretary for State has at his disposal and the fact that a number of statements have been released by the government saying they are expecting low single figure council tax increases.

11 **Conclusion**

- 11.1 As in previous years, there have been some minor changes to the Final Settlement and FSS. Torbay received an above average settlement when compared to other authorities, but the level of grant allocated to Torbay leaves the Council with a number of difficult decisions to make when setting the budget and council tax for 2004/05. Included on this agenda is a report which summarises the views of the Overview and Scrutiny Board’s and Stakeholders views on the budget proposals for 2004/05. In addition, a further report on this agenda sets out the Councils medium term financial strategy for the next three years.

- 11.2 This report has also outlined the new statutory requirement for the Director of Finance to report on the robustness of the budget and the adequacy of the Council's reserves and balances when setting the 2004/05 budget. The key issues with respect to this new requirement are outlined in section 8 of this report.
- 11.3 As outlined in section 10 of the report, Members must give careful consideration to the possibility of capping. There have been a number of statements from Ministers outlining their expectations of what council tax increases should be in 2004/05 which Members must consider when setting the revenue budget.
- 11.4 Members of the Executive will need to consider all of the issues raised in the Finance reports on this agenda when considering the final budget proposals for consideration and approval at Council on 26 February 2004.

Richard Thorpe
Director of Finance

Contact Officer: Richard Thorpe
Extension: 7280

Contact Officer: Paul Looby
Extension: 7283

IMPLICATIONS, CONSULTATION AND OTHER INFORMATION

Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed, the Report will not be included on the agenda.

Does the proposal have implications for the following issues?

Insert name of
responsible officer

Legal (including Human Rights)	None.	Bill Norman
Financial – Revenue	Contained within the report	Paul Looby
Financial - Capital	None.	Paul Looby
Human resources (including equal opportunities)	None.	Geoff Williams
Property	None.	Sam Partridge

Part 2

These sections must be completed by the author of the Report.

Does the proposal have implications for the following issues?		
Please give details as appropriate		
Sustainability	No	
Crime and Disorder	No	
*OfSTED Post Inspection Action Plan	No	
*Social Services Action Plan	No	
*Change Management Plan	No	

** not applicable to reports to Licensing, Development Control and Area Development Committees*

Part 3

These sections must be completed by the author of the Report.

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director.		
Please give details as appropriate		
Chief Executive/Corporate Services	Yes or No	Yes, the final FSS and grant settlement will impact upon all directorates.
Learning and Cultural	Yes or No	Yes, the final FSS and grant settlement will impact upon all directorates.
Environment Services	Yes or No	Yes, the final FSS and grant settlement will impact upon all directorates.
Social Services	Yes or No	Yes, the final FSS and grant settlement will impact upon all directorates.

Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?	Yes	Fill in Box 1	No	X	Fill in Box 2
1. Details of the nature and extent of consultation with stakeholders and relevant select committees.					
2. Details and outcome of consultation, as appropriate.					

Part 5

Is the proposal a Key Decision in relation to an Executive function?	No	Reference Number	
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Part 6

Wards

All Wards.

Appendices

Appendix A Formula Spending Share 2004/05

Appendix B Letter of Representation to Government

Appendix C Response to Letter of Representation from Government

Appendix D Letter form the Minister for Local Government

Documents available in Members' Room

None.

Background Papers:

The following documents/files were used to compile this report:

Provisional Local Government Finance Reports F/15/03

Formula Spending Share 2004/05

<i>2003/04 Adjusted</i>	Service	2004/05	2004/05	
		Provisional Settlement	Final Settlement	Variation
<i>£'000</i>		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
	Education			
<i>51.546</i>	– Schools Block	54.904	54.904	-
<i>6.630</i>	– LEA	6.880	6.880	-
<i>58.176</i>	Education Total	61.784	61.784	-
<i>33.437</i>	Social Services	35.593	35.593	-
<i>4.851</i>	Highway	4.823	4.814	(9)
<i>27.766</i>	Environment, Protection & Cultural Services	28.575	28.585	10
<i>4.850</i>	Capital Financing	5.422	5.466	44
<i>129.080</i>	Total	136.197	136.242	45

Please reply to: Richard Thorpe

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PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2004/05

Dear Ms Albone

Following the announcement of the Provisional Local Government Finance Settlement on 19 November 2003 and the subsequent announcements, I have outlined below Torbay Council's response.

Torbay was not expecting any major changes to the methodology for the FSS in 2004/05 due to the major changes to the system last year. Therefore, Torbay has no specific issues to raise with respect to the FSS. However, the impact of some of the changes made last year continue to affect the FSS which Torbay received in 2004/05 and reference will be made to these within my letter.

Torbay, in line with the Local Government Association (LGA), welcomes the additional funding announced by the Chancellor on 19 December 2003. This additional allocation of grant recognises the continual pressures which local government is under and will provide some support to Torbay when setting its budget for 2004/05. However, Torbay has serious concerns that this additional finding will not be sufficient to maintain low council tax levels for the residents of Torbay. As you will be aware, Torbay is now rated as a Weak authority having previously been rated as a Poor authority as part of the CPA assessment. To ensure that Torbay moves to a Fair rating and consolidates the improvements made to date, it is essential that Torbay has adequate resources to fund its ongoing improvement programme.

Even though the additional grant is welcomed, the process of allocating additional funding after the Provisional Settlement has been announced is disruptive and creates turbulence in the system for funding local government. Torbay, like all authorities are trying to develop a medium term financial plan. The uncertainty

created by more than one announcement for funding does not assist with this financial planning process. Torbay is disappointed that the additional grant allocated on 19 December is a one-off grant” and we urge government to include this within the base and make it a permanent feature of the grant system. Torbay would request the continuation of an earlier announcement of the Provisional Settlement (i.e. as early in November as possible) and adequate funding is announced at this earlier stage, without the need for additional announcements later in the year.

Education

Whilst the council received an above average increase for the Education FSS, Torbay still has a number of concerns with the indicators used within this service block. These include the changes made to the Education FSS last year with respect to the weightings applied for ethnicity and English as a second language and the use of ministerial judgment to determine these weightings.

Using two sets of indicators for social need to reflect deprivation i.e. ethnicity and EAL is valid, but these indicators do not take account of factors such as mobility and transience of children which impact significantly on resort authorities such as Torbay. There are specific additional needs for transient pupils which have cost implications for schools and these continue to not be reflected within the FSS. Torbay would like to see this addressed and ideally a specific indicator included within the FSS for these important issues

Social Services

Torbay received an average increase in its Social Services FSS. However, the overall level of FSS for Social Services is insufficient to meet the increasing costs and demands placed upon this service. Early analysis indicates that Torbay's existing commitments for 2004/05 are well in excess of £1 million above the FSS allocation. As with most local authorities that provide Social Services there are a variety of areas of spending pressures which result in Torbay spending more than FSS and these include Children's Services, Elderly care, Mental Health and Learning Disabilities – all of which are projecting overspends in the current financial year. As in previous years' the quantum for Social Services is insufficient to meet all demands and this is compounded by the considerable amount of uncertainty with respect to a number of grants and the conditions attached to them for 2004/05.

Specific Grants

The council has argued for a number of years with respect to the continued use of ring-fenced grants to allocate funds to local authorities – particularly for Education and Social Services. As stated in previous years, the audit requirements of these grants are bureaucratic and time consuming and inhibit Torbay's ability to respond to local circumstances. Whilst Torbay welcomed the reclassification of grants, distinguishing between grants that attempt to control spending and those that do not, Torbay still urge government for a significant reduction in all such grants.

Torbay welcomes the reduction in the level of ring-fenced grants to 11.1% in 2004/05 and the fact that this is the first year since 1997 that the level has fallen. However, there has been a significant increase in the level of ring-fenced grants to Education. Whilst Torbay welcomes the government's target to reduce the level of ring fenced grants to 10% by 2005/06, Torbay supports the LGA, who have asked that the level of ring fenced grants reduced to 4.5%. This is the level it was in 1997/98.

In essence, a reduction in ring-fenced grants will ensure that all local authorities can determine spending priorities based on local discretion and needs rather than having them determined by central government.

Fire Authority

Torbay have argued for a number of years about the inadequacy of the Fire FSS and the fact that the government had not addressed the issues of funding coastal authorities like Torbay for the cost of the Fire Service. Torbay, therefore welcomes the change which makes the Devon and Cornwall Fire Authority a precepting authority from April 2004. This change will ensure greater accountability and transparency in the charge set by the Fire Authority for the services it provides and will make it easier to explain the element of the council tax demand to local residents, which is attributable to the Fire Authority.

Visitor Nights

As in previous years, Torbay is very concerned at the fall in the number of visitor nights and day visitors to Torbay which has been used in the FSS. As stated in our letter to you last year, our own surveys conducted jointly with Devon County Council do not come to the same conclusions. With the changes to the formulae for 2003/04 and the fact that visitor nights impact upon the Highways FSS, we would request that you review the data used before the Final Settlement is announced and consider a new basis for gathering this data.

Capping

As stated earlier, Torbay is making good progress with its Improvement Plan and this has been recognised with the council being reclassified as a Weak authority from a Poor authority. The council has a number of budget pressures which it faces in 2004/05 and needs to invest in services to enable it to become a Fair authority in 2004. It should be noted that Torbay has the second lowest council tax in Devon and the sixth lowest in the South West which equates to £52.35 lower than the average. Torbay will have to make a number of difficult choices in the 2004/05 budget round and is concerned with the statements made to date with respect to the prospect of capping in 2004/05. Torbay will, as a minimum, passport the full increase the Education FSS to schools in 2004/05 as already notified to the DfES. With the ever-increasing demands within Social Services, there is increased pressure on the budgets for other services.

Highways Maintenance

Torbay was disappointed in the fall of the Highways Maintenance FSS. This was because of a fall in the traffic flow within Torbay. Torbay has already written to Emma Foulds, within your department, on 16 December 2003, expressing our concerns with the data included for traffic flow within the FSS. A colleague from Devon County Council has also asked for the data to be reviewed and recalculated.

Devon, Plymouth and Torbay have suffered a reduction in traffic flows based on 2002 data. This is not consistent with the level of traffic flows within Devon.

To summarise, Torbay is concerned that the level of funding received for 2004/05 is insufficient to meet all of its spending pressures. Whilst we welcomed the additional funding announced on the 19 December 2003, we are concerned with the late announcement of this additional grant. As in previous years, Torbay are particularly concerned that there is still no recognition within the new FSS to provide funding for authorities which maintain beaches and open spaces. In addition, new functions such as licensing and new statutory requirements for the removal of asbestos and landfill tax are placing increasing pressure on what are already limited resources.

I would be grateful if you would consider the points raised in this letter and would be happy to discuss any of these points in more detail if you felt it is appropriate.

Yours Sincerely

Richard Thorpe
Director of Finance



**OFFICE OF THE
DEPUTY PRIME MINISTER**

Appendix C

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30 January 2004

Dear Mr Thorpe

Thank you for your letter in response to the Government's proposals for the funding of local authorities' revenue expenditure in 2004-05.

Can I first of all assure you that the Government will carefully consider the points you make, alongside all others, as they take final decisions on the settlement.

On 19 November the Government announced their proposals for funding of local authorities' revenue expenditure in 2004-05. On 11 December, the Government announced another £340 million of Revenue Support Grant for 2004-05, on top of what was announced on 19 November. The Government is now consulting on these proposals and the consultation closes on 9 January 2004.

This is another good settlement for local government. The Government has ensured that once again all authorities receive above inflation increases. Since taking office the Government has increased funding by 30% in real terms. There is a double boost for authorities – real terms increases in funding and the removal of ring-fencing from grants worth some £750 million.

Torbay Council has again benefited from these proposals with an increase of 6.9% on a like-for-like basis compared with 2003-04. They will also receive funding for specific initiatives.

Given this significant investment in local services and the scope for efficiency improvements, the Government believe that local authorities can and should deliver council tax rises in low single figures in 2004-05. Ministers will look at council tax rises very closely and they may also take account of the trend of increases over more than one year. The Government has warned local authorities – including fire and police authorities – that they are prepared to use capping powers in 2004-05 if necessary.

The Government believes that floor and ceiling arrangements are an improvement on the previous damping arrangements, and it is now an established part of the grant distribution system. Local government agrees that stability is an important consideration in the grant distribution system. Floors and ceilings curb the volatility of year-on-year grant levels for individual local authorities, thus providing stability. The Government believes it is fair that those with the largest grant increases contribute most to the settlement.

You commented on the decrease in the overnight visitor indicator. Visitor nights data are taken from the United Kingdom Tourism Survey (UKTS) and the International Passenger Survey. These are the best and most recent data that are available on a consistent basis for all authorities. We will start work shortly on a research project looking at all visitor data used in the formula. However, Ministers have announced that, to ensure a period of stability, there will be a freeze on formula changes until at least 2006/07.

You mentioned the reduction in Highways Maintenance FSS. I understand that Torbay has already contacted ODPM regarding traffic flows. My colleague, Lorraine Fear, will write to you separately when the final settlement has been announced.

Yours sincerely

Sheela Vyas