

TORBAY COUNCIL

Report No: **7/2005**

Title: Final Local Government Finance Settlement 2005/06

To: Executive on 22 February 2005

1. Purpose

- 1.1 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. The main issues arising from the final settlement which was announced on 27 January 2005 are summarised within this report.
- 1.2 This report needs to be considered in conjunction with the report from the Overview and Scrutiny Board which outlines the views of the Board in relation to the spending targets set for each service as contained within the budget reports presented to the Board over the last few weeks.

2. Relationship to Corporate Priorities

- 2.1 The impact of the Final Settlement and the impact this has on the Council's 2005/06 revenue budget is core to the delivery of all the Council's priorities.

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 2005/06 budget which is proposed to Council on 3 March 2005.
- 3.2 The Executive recommend to Council that:
 - an estimate of £1.5m is earmarked to cover redundancy costs arising from the budget reductions and falling school rolls and redundancies arising from the merging of the Adult Social Services in 2005/06 (paragraph 10.5).
 - the costs of redundancy are capitalised and the Council request Secretary of State's approval to charge these costs to capital Paragraph (10.7 and 10.12).
 - due to projected overspend within the Housing budget for 2004/05 an additional £0.3m to be added to the Housing budget target for 2005/06 paragraph 11.4).
 - due to the additional costs which will be incurred in the establishment of the Adults Care Trust, £0.150m is earmarked to fund these costs (paragraph 11.5).

- a contingency of £0.2 is established and held at the discretion of the Director of Finance and the Leader of the Council for the costs of demographic pressures (paragraph 11.6).
- a provision of £0.250m is established to meet any other costs which arise from other savings (paragraph 11.8).
- an annual contribution should form part of the Councils Medium Term Financial Plan to increase the balance to at least 1.8% over the medium term of net expenditure (paragraph 12.2).
- the Director of Finance, following consultation with the Leader of the Council, be authorised to approve any items of expenditure to be funded from the earmarked reserves, providing that the expenditure accords with the conditions of the Reserve as laid out in Report COM/2/04 to the Executive on 7th December 2004 and the Council's financial regulations are amended to enable this decision to be made in perpetuity.

4. Reason for Recommendation(s)

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. Key Risks associated with the Recommendation(s)

5.1 This report is primarily for information and needs to be considered by Members as part of their deliberations when setting the 2005/06 budget. Failure to consider the impact of the grant settlement for Torbay and other issues raised within this report could result in the Council setting an incorrect budget which could result in an overspend which will place pressure on the 2005/06 budget and on the Medium Term Financial Plan. Members of the Executive also need to make a number of recommendations for Council to consider at its meeting on 3 March 2005, when the final budget for Torbay is determined.

5.2 The "x" in the matrix below denotes where the author has assessed the level of final risk to fall.

Likelihood	6	6	12	18	24
	5	5	10	15	20
	4	4	8	12	X16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
		Impact			



Low risk



Intermediate risk



High risk

6. Alternative Options.

6.1 There are no alternative options.

7. Background

7.1 The Provisional Local Government Finance Settlement was announced on 2 December 2004. The settlement provides all local authorities with an indication of the level of grant they will receive to support revenue expenditure during 2005/06.

7.2 At its meeting on 16 December 2004, Council considered report COM/9/04 – Provisional Local Government Finance Settlement 2005/2006 from the Director of Finance. This report outlined the Provisional Local Government Finance Settlement and its impact upon the Council. The Director of Finance made a presentation to Council on the key issues and how they impacted upon Torbay at this meeting.

7.3 Having considered and taken into account all of these matters, the Council set provisional spending targets for services and requested Directors to prepare reports outlining the implications and consequences of such targets for consideration by the Overview and Scrutiny Board.

7.4 One of the criticisms in previous years has been that the Council has not clearly moved resources from non-priority areas to priority areas. When setting the targets there was a clear prioritisation exercise which, in the first instance, sought savings in the base budgets in the following ranges:

Percentage Reduction %	Services
0%	Schools Block
1-3	-
4-5	LEA expenditure Social Services – Children's Social Services – Adults
6-7	Environment Culture
7-8	TDA Housing
10+	All central departments

7.5 In addition, new monies were agreed as part of the initial targets which gave funding for new developments in Environment, the LEA and Supporting People which then reduced the relative percentages.

- 7.6 Overview and Scrutiny Board have considered the implications from each of the budget reports and its report to the Executive is included on this meetings agenda for consideration when looking at the overall position. This report includes any issues that the Board want the Executive to consider when recommending a budget to Council, with particular reference to the risks associated with each of the budget options and the views of Stakeholders.
- 7.7 Members asked the Strategic Director (Children) to write to the Secretary of State for Education by 31st December 2004 to confirm that the Council will be setting a minimum schools budget of £59.617m for the financial year 2005/2006. This has been actioned and is in accordance with statutory requirements. As in previous years the government will expect local authorities to pass on the full increase in funding for schools which is directly linked to the increase in FSS irrespective of whether an authority currently spends above, at, or below FSS.

8. Local Government Finance Settlement

- 8.1 The Government announced the final settlement on 27 January 2005 and it was debated in the Houses of Parliament on 2 February 2005. The final settlement shows a rise in Torbay's Formula Spending Share (FSS) but a fall in the level of grant from that announced on 2 December 2004 and reported to Council on 16 December 2004. Based upon the formulae used within the settlement, the Government has assessed that Torbay Council's FSS is £145.266 million in 2005/06 and will receive external grant in the form of revenue support grant and national non-domestic rates amounting to £99.098m.

Formula Spending Share (FSS)

- 8.2 The final FSS is £75,000 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).
- 8.3 A summary of the final FSS compared to the provisional FSS and adjusted 2004/05 FSS is shown in appendix A.
- 8.4 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 relatively low increase in FSS for Personal Social Services, whereby Torbay received the lowest increase for all unitary authorities. However, despite the representations made, the government has not revised the data used in the Final Settlement to address these concerns. The Council has now received a letter from the ODPM providing an explanation as to why Torbay received such a small increase in the Personal Social Services FSS, which was due to Torbay's increase in population for this client group increasing at a slower rate than the national average. This does not accord with the general perception about the population of Torbay and further research is being undertaken in order to fully understand the position.

- 8.5 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 an acknowledgement and initial response from the ODPM on 30 January 2005. A copy of this response from the ODPM has been attached to this report as Appendix C.

9. Impact of FSS on Torbay's Financial Position

- 9.1 As stated in paragraph 8.1, the final settlement has indicated that the Council will receive £99.098m in external funding in the form of Revenue Support Grant (RSG) and National Non-Domestic rates. This is a reduction of £74,000 when compared to the provisional settlement. As part of the 2005/06 budget round, Torbay had planned for a fall in the final grant received due to revised capital data. Torbay was expecting to lose up to £0.5m in grant due to these changes in the FSS, which subsequently did not materialise.
- 9.2 Torbay will receive a 5.4% increase in grant when compared to last year on a like for like basis (compared to 6.9% last year). This compares to a 5.6% increase nationally, so Torbay has received a below average grant increase for 2005/06, mainly due to the low Social Services settlement.
- 9.3 As reported to Members in December, Torbay has lost significant funding due to the transfer of two specific grants for Social Services into the FSS – the Preserved Rights and Residential Allowances grants. Due to the way the transfer has been undertaken, Torbay lost a net £0.8m in funding in regard to these two grants. Torbay has also lost £279,000 in grant as a result of the Amending Report which took into account a challenge to the 2001 census data by a number of local authorities. As expected the government will not provide additional funding to correct the original mistake it made in the 2001 census and therefore the mistake has to be paid for by all authorities including Torbay.

10. Staff Redundancies

- 10.1 The proposals included in the budget booklets and presented to Overview and Scrutiny Board identified the deletion of some 72 posts throughout the organisation. Of these 22 posts are vacant which meant the Council will incur no costs in deleting these posts. However it was originally estimated that 35 people will be leaving the Council under the voluntary redundancy procedure but there would have been 15 compulsory redundancies. The Council though has been endeavouring to find alternative employment within the Council whenever possible and the final figures for redundancies are likely to be 37 voluntary and 7 compulsory with a further 2 posts being deleted.
- 10.2 Based on the above information though, the cost of redundancies is likely to be approximately £1.175m which roughly breaks down into £0.481m redundancy payments, £0.088m for added years pension payments and £0.606m for "pension strain" payments to Devon C.C. for the early release of pension. The funding of those costs are considered in section 10.6 below.
- 10.3 In addition there will be an on-going costs of £0.031m in respect of on-going pension payments for the added years enhancements to pensions. These costs though must be seen in the light of savings of an estimated £1.5m arising from the deletion of these posts.

- 10.4 Members will also be aware that Torbay is beginning to witness a fall in school rolls in the Nursery and Primary areas in parts, but not the whole, of Torbay. This is likely to result in a number of schools having to reduce staffing levels in the next financial year but at this stage it is unclear where the reductions will fall and what the financial impact will be upon the Council in terms of redundancy or early retirement costs. However it is something the Council will need to be aware of and plan for as part of the contingency and capital planning for next year.
- 10.5 For planning purposes therefore, it would be advisable if the Council used an estimate of £1.5m to cover redundancy costs arising from the budget reductions and falling school rolls. There may also be some redundancies arising from the merging of the Adult Social Services and the Primary Care Trust (P.C.T) but these are being shared with the P.C.T. and it is hoped that these costs could be contained within the overall £1.5m. However, there is a risk that the figure may be an underestimate when the final position is known, although this will not be until much later in the 2005-06 financial year.
- 10.6 In terms of funding these redundancies, there are two main sources of funding, these being
- (a) the capitalisation of costs and charge them to the capital account or
 - (b) identify additional revenue funding to meet these costs, thus funding them through the revenue account.
- 10.7 If the capitalisation route is chosen, then the Council will need to seek the Secretary of State's approval to charge these costs to capital. Such approvals have been sought and received by Torbay Council in previous years and informal contact with ODPM officials have indicated that such a request would be "considered sympathetically". The Secretary of State sets certain criteria when assessing the request for capitalisation and for Torbay the minimum amount he will allow to be capitalised is between £0.4 - £0.5m. However, it must be remembered the Council does not receive additional capital funding approvals and therefore applying these costs to capital will have the result of reducing the Council's capacity to undertake other capital schemes.
- 10.8 The alternative approach would be to identify additional revenue sources and this could be through additional reductions in service budgets to meet these costs, the use of reserves and balances or new monies. To identify additional reductions to existing services is the start of a self perpetuating cycle as further cuts inevitably mean further staff redundancies which result in further additional costs. Therefore, this is not recommended.
- 10.9 The report on Reserves and Balances, considered by the Executive on 7 December 2004, identified that all the reserves were necessary and the existing balances were at the correct level. Some £0.5m, though, was identified as being in excess of requirements and this money was moved to a new reserve. However, if the integrity of the General Balance is to be maintained, then this reserve will probably be needed to meet the costs of the October storms. Furthermore this balance would only meet one third of the total costs and other sources would have to be identified to meet the shortfall.

- 10.10 Members will not need reminding that the Audit Commission has criticised Torbay for its low level of balances and the external auditors, PWC, have indicated in their recent Management Letter that Torbay holds the fourth lowest level of balances when compared to other Unitary authorities. These comments and criticisms though need to be seen in the light of my statement on Reserves and Balances later in this report.
- 10.11 The following section identifies that there is some additional revenue resources available following confirmation of the final settlement and clarification of some outstanding issues. Once again these new resources do not match the projected costs of redundancy and so other sources of funding would need to be identified such as capitalisation but once again there would have to be at least £0.4m of costs capitalised. However the following section also identifies one or two other revenue issues that have arisen since the setting of the target which, if Members decide to recognise and include in the budget, would only leave £0.378m for use in meeting these redundancy costs.
- 10.12 Members may feel that the Council will derive greater value for money and improved service delivery if the costs of redundancy were capitalised and if this is the case then it is recommended that the Director of Finance seek the Secretary of State's direction at the appropriate time.

11 Additional Resources

- 11.1 The final settlement referred to above results in additional resources being available to the Council of £1.325m, compared to the position and targets reported to Council in December 2004 using the previous planning guideline assumption of a council tax rise of 4.9%. This arises for a number of reasons including:-
- (a) The original targets withheld approximately £0.5m (see paragraph 9.1) to compensate for anticipated loss of FSS following the finalisation of the capital figures. Ultimately the Council only lost £0.074m, which is significantly greater than the variation had been in previous years, but this has to be seen in the light of other unitary authorities of similar size gaining £1.75m in one case and losing in excess of £0.5m in another case. This level of variation in grant settlement at this stage of the budget setting process is totally unreasonable and I believe the LGA has raised this as an issue.
 - (b) At the time of the provisional settlement, the Council had not received the final actuarial assessment for the Pension Fund, which takes effect from the start of the 2005-06 financial year. As a result though of the final assessment now having been received and an extension of the time over which the Council needs to make good the shortfall, a further £0.3m can be released from the provisional planning assumptions.
 - (c) Members will be aware that a number of authorities have challenged the Office of National Statistics (ONS) over the results of the 2001 census data, claiming that their general population were understated (see paragraph 9.3). These authorities won their case and the Government indicated that the authorities would receive the back funding due in respect of 2003-04 and 2004-05, not by providing extra resources but by taking it away from the remaining authorities. Torbay was notified that it would lose £0.279m in respect of 2003-04 in the 2005-06 settlement and appropriate provision was

made. It was also thought that an approximately similar sum would be clawed back in respect of 2004-05 and a sum of £0.3m was set aside to meet this but all authorities have been informed that this will not be clawed back until 2006-07 when a similar provision will need to be made.

- (d) In setting the original targets there was some confusion over the basis of the Education “passporting” figure which has now been clarified and by following the Council policy in target setting of only passporting the increase, this accounts for the balance.
- 11.2 At the same time a number of issues have also emerged, some of which have been identified through the scrutiny process (see separate report elsewhere on this agenda). However, some issues have emerged outside the scrutiny consideration of the Budget reports and need bringing to Members’ attention.
- 11.3 The issue of the cost of the redundancies has been dealt with in the Capital Report (earlier on this agenda) but there will be ongoing revenue costs arising from the total package. These amount to some £0.031m and will be in the form of additional pension payments over which the Council now has no option but to meet. The revenue implications of using capital for this purpose has already been factored into the Minimum Revenue Provision and the main cost of using capital will be the opportunity cost of foregoing other capital schemes.
- 11.4 The latest budget monitoring report for 2004-05, considered earlier, has indicated a significant growth in Homelessness payments in the current year, which has only manifested itself since the base budget has been prepared. Whilst the projected overspend for 2004-05 is over £0.5m, it is thought that it will fall with the implementation of some of the policies agreed by the Council and closer working relationships with the Housing Authorities in general. At this stage it may be considered appropriate for Members to allow for an additional £0.3m to be added to the Housing target, i.e. £0.205m above provision assumed in the budget planning guidelines.
- 11.5 It is also clear that the Council and the P.C.T. will incur additional costs in the establishment of the new Adult Care Trust, which will be shared between the two organisations. These will be one-off costs and will cover such things as legal and additional fees and similar related expenses. It would be prudent, at this stage, to earmark £0.150m for these items.
- 11.6 In recent years the Council has seen a number of demographic pressures affecting its approved budget during the financial year in question, over which it had little or no choice but to meet. In the first instance services are always expected to meet these costs from within their approved budgets but this has not always been possible. To meet any such future pressures it would be prudent to consider establishing a contingency of, say, £0.2m to be held at the discretion of the Director of Finance and which could be utilised if additional demographic pressures arose in 2005/06. Any money would only be vired after the services had proven that other savings could not be found to meet the increased caseload and after consultation with the Leader of the Council.
- 11.7 Similarly the Council is facing a number of other spending pressures which may or may not result in additional costs in 2005-06. For example it is known that there will be Referendum on an Elected Mayor in 2005-06 and provision has been made for this. However, if the Referendum is in favour of an Elected Mayor then there will be

the cost of running such an election and providing the candidates with the appropriate facilities in preparation for the election which are estimated as totalling £0.1m. Linked to this is the question of a Town Council on 3 March 2005 but for which no budget provision has been made.

- 11.8 There are also a number of other budget proposals which have an element of risk attached to them including rising costs of the Coroner to Torbay with the shift of cases from South Devon to Torbay. Whilst the officers are confident that the savings can be made, it would be prudent to earmark a contingency to cover these items and it is recommended a provision of £0.250m be established to meet these costs.
- 11.9 If the above recommendations are accepted then there is a balance of £0.378m available if the Council wishes to set a Council Tax increase of 4.9%. Members should be aware that a 0.1% variation in Council Tax increase results in an income variation of approximately £0.045m.
- 11.10 Members will need to consider a number of options regarding this balance of funding ranging from:
- (a) Reducing the Council Tax increase of to 4.1% and having no service spending increases through to
 - (b) Applying the full sum to additional service spending.
- 11.11 The Overview and Scrutiny Report includes both the notes of the meetings held and the recommendations of the Board. Of particular concern must be these areas where the service failed to meet the spending target in the first instance without impacting on service priorities and Members' attention is brought to the Cultural Services budget which failed to achieve its target by £0.130m. Whilst the report indicated this would be found from carry forwards from 2004-05, this is mainly a "one-off" fix of the problem and the Council could be facing a similar problem in 12 months time. Also the Council's budget, in total, is indicating an overspend in 2004-05 although certain services, such as Cultural Services, are indicating an underspend in the current year and permitting such a carry forward would only exacerbate the current year situation. Accordingly it is suggested that the shortfall of £0.130m be met from the additional resources.
- 11.12 If this suggestion is accepted, this would leave £0.264m uncommitted which is the equivalent of a 0.6% decrease in the proposed Council Tax increase, to 4.3%, or it could be applied to service improvements.

12 Budget Risk Assessment

- 12.1 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. This is the second year Torbay has addressed these issues.
- 12.2 The Revenue Budget report presented to Members on 3 March 2005, setting out the revenue budget for 2005/06 will contain any updated information with regard to how the Council is meeting this statutory requirement.

- 12.3 As in previous years, the Council has been through a detailed budget process including 2 separate public consultation weeks, and detailed scrutiny of the proposed budget for 2005/06 by Stakeholders and Members. This culminates in the Council setting a revenue budget for the financial year and setting the Council Tax.
- 12.4 Torbay has always adhered to a number of legislative and regulatory requirements which require the robustness of the budget to be considered and the adequacy of the reserves 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.
- 12.5 The 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.
- 12.6 When recommending a budget to Council for 2005/06, 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 and the comments made in paragraph 10.8 and 10.9 of this report. 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 12.7 below. The Secretary of State for Local Government and the Regions 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.
- 12.7 To comply with the legislation the Executive have already considered a report on the level and adequacy of the Council's reserves and balances on 7 December 2004 (report number COM/2/04). In summary section 10 of the 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 Council's General Fund Reserves of £2.259 million represents 1.6% of the Council's overall 2004/05 budget. (2.67% if delegated schools budget is excluded).

The current level of general fund reserve should not be reduced, as balances would fall below a prudent minimum level.

- 12.8 On 7 December 2004, having reviewed the council's reserves, Members agreed that £0.806 million be transferred out of existing reserves. Of this £0.3 million was transferred to the insurance reserve based on advice from the Council's insurance actuary on the need to increase the contribution made to the insurance fund by this amount and by similar sums in future years.
- 12.9 In addition it was agreed to transfer £0.506 million to the Finance Strategy Reserve to meet some of the prospective budgetary issues facing the Council in 2005/06 and any shortfall in storm damage funding arising from the extreme weather in October 2004.

- 12.10 As already stated the Councils general fund balances is approximately £2.259m. which represents 1.6% of the Councils overall budget, or 2.67% if delegated schools budget is excluded.
- 12.11 During the CPA inspection in November 2004, the Audit Commission raised concerns about the level of reserves and the level of the General Fund Balance. Torbay's 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. At this stage though I would not seek to increase the balance in 2005/06 by specifically budgeting for an increase but initially aim to achieve this by year end underspends.
- 12.12 I recommend that an annual contribution should form part of the Councils Medium Term Financial Plan to increase the balance to at least 1.8% over the medium term of net expenditure and cognisance should be taken of the Audit Commission view when setting future levels.
- 12.13 As part of the budget report to Council setting the 2005/06 budget on 3 March 2005, 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 12.7 above based upon the final recommendation and decision made by Council.
- 12.14 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. 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 Members will be considering later in the year.

Robust Budget

- 12.15 The production of a robust budget is an essential element for the effective financial management of the authority. Torbay has continued 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. Part of this years budget round has been to look for efficiency savings within support services and where possible protecting the delivering of front line services.
- 12.16 As in previous years the budget process has been informed by engaging Member and Stakeholder involvement in the process through the Overview and Scrutiny Board meetings. Officers and Members have been assessing the financial impact of spending pressures that are likely to affect Torbay in 2005/06 at these meetings and as already discussed the Overview and Scrutiny Board will be making recommendations to the Executive based upon the outcome of these meetings.
- 12.17 In addition the Council has undertaken extensive consultation with residents through a series of road show consultations in Torquay, Brixham and Paignton during October 2004 and January 2005. The views of residents have been taken into account when considering the budget for 2005/06.

- 12.18 As part of the budget process for 2005/06 Members have already received report CE/2/04 on 30 November 2004 which outlined the budget pressures faced by the Council and the need to reduce up to 100 posts to fund the budget gap identified within the Medium Term Financial Plan. I also presented to Members a report of the Medium Term Financial Plan in February and October 2004.
- 12.19 As discussed the Executive will receive a separate report on this agenda outlining the recommendations of the Overview and Scrutiny Board with respect to the 2005/06 spending targets. Four separate meetings of the Board have considered the implications of the budget targets to ensure the budget has been publicly discussed with the key risks of the budget proposals identified.
- 12.20 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 through the council's business planning process, resource allocation not linked to strategic objectives, a lack of involvement of Members, Stakeholders and local residents and weak budgetary control. To mitigate against these risks a number of assumptions have been made in the development of the budget for 2005/06 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 based on individual services business plans;
 - an assessment of the level and timing of capital receipts;
 - an assessment of the revenue impact for any planned unsupported borrowing;
 - an assessment of the revenue consequences of any capital investment.
 - full consultation of the budget proposals with residents and stakeholders.
- 12.21 The main risk once the budget has been set is inadequate financial control. This is minimised by effective and regular monitoring of the budget throughout the year. Torbay has for a number of years put in place a series of regular revenue and capital monitoring reports, which are presented to the Executive and the Overview and Scrutiny Board throughout the financial year. These reports provide Members with an overview of the key spending pressures faced by the Council and the management action which will be taken to address any issues which arise.
- 12.22 A timetable for the submission of monitoring reports to committee is published at the start of each 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 and the Leader of the Council. This ensures that senior managers have an opportunity to discuss the key financial issues facing the council take corrective action as necessary.

13 External Levies

- 13.1 There are now two 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 2005/06 are estimated to be £79,000.

These two public sector organisations raise revenue by levying a charge on Torbay and include the Environment Agency and the and Devon Sea Fisheries. The estimated levy charged by each of the above for 2005/06 financial year is shown in the table 2 below along with the levy for the current year:

Table 2

	2005/06	2004/05	Increase/ (Decrease)	%
	£	£	£	
Environment Agency *	36,000	30,000	6,000	20.0
Devon and Cornwall Magistrates' Courts Committee *	0	224,000	(224,000)	-
Devon Sea Fisheries *	43,000	40,000	3,000	7.5
Total	79,000	294,000	(215,000)	12.9 +

* Estimated Levy - to be confirmed for 2005/06.

+ Increase excluding Magistrates Court

- 13.1 The Devon and Cornwall Magistrates Court is no longer a levying body and from April 2005 will be funded directly from Government. A small budget of £35,000 remains for the council's contribution to debt charges for the Magistrate's Court and any one off costs for the transfer.

14 Council Tax Levels and Capping

- 14.1 At the time of writing this report, there have been no formal declarations of Council tax rate increases. However, a number of authorities stated that they would be setting a council tax increase of less than 5%. Members will be aware that a number of local authorities were capped last year, including Torbay, and once again this year's settlement has been announced against the threat of capping by the Government.
- 14.2 Members will be aware that the government provided local government with an additional £637 million in 2005/06 compared to the funding announced as part of the Spending Review in July 2004. The government has stated on a number of occasions that the additional money provided to local government should ensure low council tax increases are levied in 2005/06.
- 14.3 In his statement to the House of Commons on 2 December 2004, the Secretary of State for Local Government and the Regions stated that he expects the national average increase in council tax to be no more than 5%. The Secretary of State also stated that the government will use their reserve powers to cap authorities, which is contained within the Local Government Act 1999. The Secretary of State has stated if authorities set excessive council tax increases the government is prepared to take tougher action in 2005/06 with respect to capping. This was reinforced by the Secretary of State in his letter to all Council Leaders' on 9 December 2004. Following this the Secretary of State has written to a number of local authorities regarding the potential council tax rise but Torbay was not one of them.

- 14.4 It is clear that once again 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 2005/06. Torbay is committed to high quality services and low council tax levels and the budget reports already circulated to Members set out the savings that are required as part of this budget round.
- 14.5 As in previous years, the detail capping criteria will not be set until all local authorities have set their budget requirement for 2005/06 indeed in 2004/05 the initial letters did not go out until April. In addition to looking at the level of council tax increase (i.e. no more than 5%), the government are expected to look at the percentage increase in a local authorities budget requirement and possibly past trends in council tax increases.
- 14.6 Based upon the statement made by the Secretary of State and his letter to the Leader of the Council, I would advise Members that if a council tax level of more than 5% is set, there is a strong probability that Torbay will be capped. Whilst a figure of 4.5% to 4.9% is below 5%, there can be no guarantee based upon past experience that this will not attract capping but if this is the case, many authorities may be caught by such a level of cap. When considering the 2005/06 budget, Members will need to be mindful of the reserve powers that the Secretary for State has at his disposal and the statement by the Minister of his expectation on the level of council tax increases for 2005/06.
- 14.7 The council tax bill that is eventually sent out is made up of three component parts, namely Torbay Council, the Police Authority and the Fire Authority. The Secretary of State will look at the component parts, not the overall bill and therefore if one of the three organisations were capped, the Council would have to re-bill.
- 14.8 At this time the Fire Authority is proposing to set its precept for Band D at £58.34 a 4.9% increase, below the 5% guideline. At the time of writing this report, the Police Authority though, had not yet set a budget precept but if Torbay set a council tax increase of 4.9% then only if the Police Authority set an increase of 5.7% or greater would the overall bill for the Torbay resident be a 5% or greater increase. This though would leave the Police Authority susceptible to capping.
- 14.9 As stated above, if the Police Authority were capped, then Torbay would have to re-issue amended bills but would be able to re-claim the costs of billing and associated costs from the Police Authority.

15. Impact of Gershon Review on Efficiency

- 15.1 The Government commissioned a review of all public sector spending in order to identify the level of efficiency savings that might reasonably be expected if the public sector worked in a more efficient manner. The review was undertaken by Sir Peter Gershon and the outcomes were published in the summer of 2004.
- 15.2 The conclusion of the Gershon review was that it was considered that efficiency savings of some 2.5% per annum, using 2004/05 budgets as the base, was achievable and for local government in general this would mean savings of some £6.45bn by 2007/08 when the next spending review was due to be published. Of this sum, half was expected to be in the form of "cashable" savings and the balance

in the form of greater throughput of service.

15.3 The Government has now published a number of documents as to how it expects Councils to calculate the savings achieved or expected to be achieved and the monitoring and reporting processes. Each Council will be required to:

- (a) Publish an Annual Efficiency Statement, signed by the Leader of the Council, the Chief Executive and Chief Financial Officer, by the 15th April each year which looks forward as to what savings will be implemented in the forthcoming financial year;
- (b) There will be a mid year update, which has to be published by the 17th November; and
- (c) An out-turn statement as part of the publication of the Statement of Accounts.

All Statements are mandatory, although "Excellent" authorities are only "invited to volunteer" information on mid-year progress. The statements will be audited by the externally appointed auditors (PWC in Torbay's case) and will form part of the "Use of Resources" assessment for CPA purposes.

15.4 All the services of the Council will be judged by this criteria, although schools and schools related expenditure is excluded from the Council target as this is subject to different monitoring arrangements by the DfES. The Police and Fire Authority's also have separate monitoring systems. The proposed pro-forma statement is attached as Appendix D. In assessing the target, the Government uses certain statistical returns, starting with gross expenditure, but the Council has to include capital expenditure in its starting figure, once again schools expenditure is excluded.

15.5 In summary efficiency savings can be achieved by:-

- (a) Reducing inputs (people, assets) for the same outputs;
- (b) Reducing prices (procurement, labour costs etc.) for the same outputs;
- (c) Increasing prices (procurement, labour costs etc.) for the same outputs;
- (d) Increasing outputs or improved quality for the same inputs or;
- (e) Increasing outputs or improved quality in return for an increase in resources that is proportionately less than the increase in output or quality.

The first two above (i.e. (a) and (b)) are deemed to be cashable gains whilst the other two tend to be non-cashable gains.

15.6 A provisional assessment of the Council's position suggests that the base position for 2004-05 is £105.6m, of which revenue expenditure accounts for £96.7m and capital £8.9m. On this basis the Council will need to demonstrate efficiency savings of some £2.6m each year, which in total means the Council will have had to identify some £7.9m efficiency savings by 2007/08. Of this £1.320m and £3.960m respectively, will be "cashable" savings.

- 15.7 The budget package being presented to Members has, in the view of the Director of Finance, identified a number of savings which will count towards the total and which is expected to achieve the required level of savings. Although a review of 2004-05 expenditure will be undertaken to identify any on-going savings which can count towards the total, it is expected that most of these will have been included in the 2005-06 budget proposals before Members.
- 15.8 The savings in question, although at a Council level, have to be analysed over a number of service blocks and thus the Government/Inspectors/Auditors will be able to compare the performance of Adult Social Services v Children's Services v Housing and Transport etc as shown in Appendix D. It will also mean that the Council will have to work very closely with the P.C.T. and other external agencies to ensure the appropriate savings are continued and new ones identified in line with the targets for future years.

16 Medium Term Financial Plan (M.T.F.P)

- 16.1 At the equivalent meetings last year, the Executive and Council received a report on the M.T.F.P. for the following three years. This was relatively superficial in that it only dealt with income assumptions and the continuation of existing service levels. It did though identify the approximate size of the gap between income and expenditure for 2005-06, which remained fairly constant throughout the whole process.
- 16.2 One weakness of the M.T.F.P. was that the Council had not determined its relative priorities and reflected these in Business Plans. The Council has now moved its planning processes forward and, by adopting the Community Plan as its own Strategic Plan, now understands what its principle short, medium and long term objectives are. These should now be reflected in the various departmental Business Plans and when these are shortly published they should include, in financial terms, how the department intends to achieve these objectives.
- 16.3 Accordingly an updated M.T.F.P. will be published the Summer which will reflect the impact of proposals in the Business Plans. In the short term, the Budget Digest pages will include all known committed growth, such as increments and capital charges, whilst there will be a central sum held within the Finance budget to reflect a notional sum to cover inflation, anticipated demographic growth etc.

17 Conclusion

- 17.1 As in previous years, there have been some minor changes to the Final Settlement and FSS. Torbay received a below average settlement when compared to other authorities and has raised a number of concerns with regard to the transfer of Social Services specific grants to FSS, and the impact of the 2003/04 Amending Report. In addition the council's grant has fallen by £74,000 when compared to the provisional settlement.
- 17.2 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.

This report needs to be read in conjunction with the report from the Overview and Scrutiny Board.

- 17.3 This report has commented on the impact of the final settlement on the council's overall financial position, taking into account the impact of savings made as part of the 2005/06 budget round, the Gershon Review and the impact this will have on the Council's Medium Term Financial Plan.
- 17.4 This report has also outlined the 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 2005/06 budget. The key issues with respect to this new requirement are outlined in section 12 of this report.
- 17.5 As outlined in section 14 of the report, Members must give careful consideration to the possibility of capping. There have been a number of statements from Ministers outlining their expectation that council tax increase should be less than 5% in 2005/06 which Members must consider when setting the revenue budget.
- 17.6 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 3 March 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 have been completed by the Report author but must have been agreed by the named officers in the Legal, Finance, Human Resources and Property Divisions.

Does the proposal have implications for the following issues? If "Yes" - give details. <i>delete as appropriate</i>		Name of responsible officer
Legal	None	Bill Norman
Financial – Revenue	Covered in the body of the report	Paul Looby
Financial – Capital Plan	None.	Paul Looby
Human resources	None.	Geoff Williams
Property	None.	Sam Partridge

Part 2

The author of the report must complete these sections.

Could this proposal realistically be achieved in a manner that would more effectively: <i>delete as appropriate</i>		
(i)	promote environmental sustainability?	No
(ii)	reduce crime and disorder?	No
(iii)	promote good community relations?	No
(iv)	promote equality of opportunity on grounds of race, gender, disability, age, sexual orientation, religion or belief?	No
(v)	reduce (or eliminate) unlawful discrimination (including indirect discrimination)?	No

If the answer to any of the above questions is "Yes" the author must have addressed the relevant issue/s in the main report and have included a full justification and, where appropriate, an impact assessment

Part 3

The author of the report must complete this section.

	<i>delete as appropriate</i>	If "Yes", give details
Does the proposal have implications for any other Directorates?	Yes	Yes, the final FSS and grant settlement will impact upon all directorates.

Part 4

Is this proposal in accordance with (i.e. not contrary to) the Council's budget or its Policy Framework?	<i>delete as appropriate</i>
	Yes
1.	If "No" - give details of the nature and extent of consultation with stakeholders and the relevant overview and scrutiny body.
2.	If "Yes" - details and outcome of consultation, if appropriate. Consultation with Members and Stakeholders at Overview and Scrutiny Board Public consultation with residents in October 2004 and January 2005.

Part 5

Is the proposal a Key Decision in relation to an Executive function?	<i>delete as appropriate</i>	If "Yes" - give Reference Number
	No	

Part 6

Wards

All Wards.

Appendices

Appendix A Formula Spending Share 2005/06

Appendix B Letter of Representation to Government

Appendix C Response to Letter of Representation from Government

Appendix D Efficiency Statement Proforma

Documents available in Members' Room

None.

Background Papers:

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

Provisional Local Government Finance Reports Com/9/04

Formula Spending Share 2004/05

2004/05 Adjusted	Service		2004/05	
		Provisional Settlement	Final Settlement	Variation
<i>£'000</i>		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
	Education			
54.905	– Schools Block	58.047	58.041	(0.006)
6.879	– LEA	7.218	7.218	-
61.784	Education Total	65.265	65.259	(0.006)
37.484	Social Services	38.867	38.867	-
4.814	Highway	5.011	5.011	-
28.465	Environment, Protection & Cultural Services	29.278	29.278	-
5.459	Capital Financing	6.770	6.851	0.081
138.006	Total	145.191	145.266	0.075

Please reply to: Richard Thorpe

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PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2005/06

Dear Mrs Hinde

Following the announcement of the Provisional Local Government Finance Settlement on 2 December 2004 and the subsequent announcements, I have outlined below Torbay Council's response and concerns.

I would specifically like to draw your attention to Paul Looby's letter to Emma Fould's dated 16 December 2004 outlining our concerns with respect to the Personal Social Services FSS. (see letter attached) and Paul Looby's email on 3 December 2004 concerning Supported Capital figures (see attached).

With respect to the letter dated 16th December 2004, Torbay is extremely concerned with the small increase in our Personal Social Services FSS when compared to other unitary authorities. Based upon the demand for Social Services from local residents, the increase in our FSS would appear to be understated and we are unaware of any data changes or changes in client numbers which would cause such a change. I would like to refer you again to the attached letter. As of today, I have still not received an answer to the questions raised.

In addition, I have not received a formal letter acknowledging the mistakes identified with Torbay's Supported Capital figures. However, Paul Looby did receive verbal confirmation that the original data was incorrect and that it will be changed. I look forward to receiving a written response confirming these changes. Linked in with this, I have to express concern over the Supported Capital borrowing. A colleague from another authority has identified that there are major errors in this FSS block and if these are corrected without additional resources being applied, this could result in Torbay's provisional FSS being reduced by approximately £0.5m, which is hardly insignificant.

Additional Grant

Torbay, in line with the Local Government Association (LGA), welcomes the additional funding announced by the Chancellor in his pre – budget statement on 2 December 2004.

The additional resources allocated over and above the Spending Review 2004, recognise the funding pressures which local government is faced with in the coming financial year and will provide some support to Torbay when setting its budget for 2005/06. However, whilst this additional money is welcomed Torbay has serious concerns that if this money is a one – off, council tax increases will have to increase significantly in 2006/07 or major cuts in services will be required to maintain low council tax increases.

As you will be aware, Torbay has made significant progress over the last two years and is now rated as a Fair authority having been rated as a Poor authority in 2003, as part of the CPA assessment. If Torbay is to consolidate its Fair rating and take on board the changes to the CPA assessment process, it is essential that Torbay is adequately funded to continue its improvement programme and provide high quality services to its residents.

Torbay welcomed the earlier announcement of the FSS and Grant in November 2003 for the 2004/05 budget round. We are therefore very concerned that the notification of the settlement has reverted to being announced in December. Torbay is trying to ensure it develops a robust medium term financial plan and integrate its financial planning in line with its corporate objectives. The uncertainty created by this late announcement has not helped our 2005/06 budget timetable and we would urge the government to ensure the 2006/07 settlement is announced in early November 2005.

Education

As you will be aware, Torbay received an average increase for the Education FSS when compared to the national change. However, as expressed to your department on previous occasions Torbay still has a number of concerns with the indicators used within this service block. These include the changes made to the Education FSS in 2003 with respect to the weightings applied for ethnicity and English as a second language and the use of ministerial judgement to determine these weightings.

Torbay's main concern is whilst these indicators are valid, they 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. We hope this will be considered as part of the 2006/07 FSS.

Social Services

As discussed earlier, Torbay is extremely disappointed with the increase received for the Personal Social Services FSS. Torbay received the lowest increase in this FSS when compared to all other unitary authorities and 2.3% lower than the national average i.e. 3.7% compared to 6%.

The increase in FSS is not sufficient to meet the increasing costs and demands placed upon this service, particularly within Children's Services which is currently projecting an overspend of £0.5m in the current financial year.

The position this year has been made worse by the movement of the Preserved Rights and Residential Allowance Grant to FSS. It is estimated that Torbay has lost a net £0.8m in funding due to the way the transfer has been undertaken. In other words Torbay's council tax payers will suffer almost a 2% rise in council tax to meet these additional costs which the Council must fund due to current commitments. Torbay has supported the principal of reducing the level of specific grants allocated by government which has continued since 2005/06. However, it is not acceptable when the removal of a specific grant adversely affects Torbay where there are real commitments which must be funded. Torbay is not unique in this problem and the South West seem to have been particularly hard hit in this respect. I would refer you to the representation made by North Somerset on this issue and we totally concur with the views expressed by that authority.

Visitor Nights

As in previous years, Torbay is very concerned at the continual fall in the number of visitor nights and day visitors to Torbay which has been used in the FSS over the last 2 years. As previously stated to your department, our own surveys conducted jointly with Devon County Council do not come to the same conclusions. We once again ask you to urgently review the methodology used to calculate the number of visitors to local authorities.

Amending Report 2003/04

Torbay Council is extremely disappointed at losing £279,000 due to the Amending Report 2003/04. Whilst it is understandable that those authorities which received insufficient grant in 2003/04 due to a mistake by the Office for National Statistics – a government department – it is unfair that authorities like Torbay have to pay for this mistake in reduced grant in 2005/06. As you will be aware, all local authorities prepared budgets in 2003/04 based upon the level of grant provided by central government. The government's proposal to claw back this grant has a direct impact on Torbay council taxpayers and amounts to an extra 0.5% on the council tax. The government should not make local authorities make up the shortfall and I would urge you to recommend to Minister's that additional resources are found to bridge this gap.

This proposal contradicts another decision by your department of not including the most up to date within the FSS i.e. the 2001 census data. As you will be aware

data from 1991 is still being used to allocate resources to local government in 2005/06!. This is unfair and penalises authorities like Torbay would have benefited from using the most up to date FSS date.

Capping

As you will be aware, Torbay was capped last year. Torbay considered this decision to be unfair and unjust based upon the budget pressures faced by the authority and the resources that were required to enable Torbay to implement its Improvement Plan, as agreed with the ODPM. Torbay is still opposed to capping as a control which can be used by government to restrict local authority expenditure.

Torbay has a number of extremely difficult decisions to make in the 2005/06 budget round to ensure a low council tax increase is maintained. Early indications are the council tax increase will be no more than 4.9%, which I assume meets the government's target for setting a low council tax in 2005/06. For your information, Torbay still has the second lowest council tax in Devon and the 10th lowest in the South West when compared with 33 other authorities.

Torbay will, as a minimum, passport the full increase the Education FSS to schools in 2005/06 as already notified to the DfES.

Floors and Ceilings

Torbay welcomes the removal of the ceiling for grant purposes and has written to you about this issue in previous representations with regard to the Provisional FSS. However, Torbay is opposed to scaling back grant from all authorities to pay for the floor which has resulted in a loss of grant of £120,000. Once again, it is unfair that resources are being removed from those authorities that have identified need based upon the government's own data. Torbay urges you to reconsider this method used and recommends additional resources should be made available to fund the floor.

Conclusion

To summarise, even with the additional resources provided within the local government finance settlement, Torbay is concerned that the level of funding received for 2005/06 is insufficient to meet all of its spending pressures. This can be confirmed by the difficult decisions we are having to make as part of this budget round and the prospect of compulsory redundancies and cuts in service that will be required to ensure a council tax of less than 5% is declared for 2005/06.

Torbay is concerned that the additional resources provided for 2005/06 are a one-off and we would like the issues raised in relation to the Personal Social Services FSS addressed as soon as possible.

As in previous years, Torbay are particularly concerned that there is still no recognition within the FSS to provide funding for authorities which maintain beaches and open spaces and other issues which impact upon coastal resorts

such as transience. We hope these are addressed as part of the review on the FSS in 2006/07.

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

COPY OF LETTER SENT TO EMMA FOULDS 16 DECEMBER 2004

Please reply to: Paul Looby

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PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2005/06

Dear Ms Foulds

Following the announcement of the Provisional Local Government Finance Settlement on 2 December 2004, I would like to make a representation with respect to the data used within the Personal Social Services FSS Block. The closing data for representations for data changes are 17 December 2004.

Having analysed the FSS papers, I was extremely surprised to see that Torbay's PSS FSS had the smallest increase of all unitary authorities – increasing by only 3.7% to the adjusted 2004/05 FSS. When this is analysed in more detail, the reason for this small increase is due to the Younger Adults and Older Persons increase of 2.4% and 3.3% respectively.

According to the "Analysis of Change" papers included within the consultation papers, the Younger Adults sub block has lost 0.2% due to data changes and the Older Persons sub block has lost 0.4% due to data changes. In total 0.6% was lost due to data changes for the PSS FSS block. (With respect to these percentage changes, I would be grateful if you would confirm what the above % reductions actually represent in FSS terms as this is not clear from the papers).

Locally we are surprised by such a change in our data and are not aware of any reason why the data has fallen in relation to other authorities. There have been changes in the FSS with the transfer of specific grants to FSS, but I would have thought these would be control total issues and not data changes.

I also note that in the 2004/05 provisional settlement papers, Table 1 for "individual local authority tables" provided a comparison of the change for each item of data

with the previous year and with the national change. This has not been provided this year and makes it difficult to see whether Torbay's data changes have not risen as much in comparison to changes at a national level.

I have discussed my query with Paul Gaugh and he did point out that we did not compare well for some of the population changes for the over 65's . I have attached a spreadsheet of how we compared to the national position, and as you can see for the over 65s, apart from the age category 80 to 84, our population growth was broadly in line or above the national average.

As you will be aware, the Council's overall PSS FSS will have an impact upon our final grant settlement. I would therefore be grateful if you could review the data used for Torbay within the FSS formulae and if it is correct, explain why Torbay have the lowest increase in PSS FSS for all unitary authorities and how Torbay have lost 0.6% in FSS due to data changes.

Yours Sincerely

Paul Looby
Assistant Director – Corporate Finance



Office of the
Deputy Prime Minister

Creating sustainable communities

APPENDIX C (i)

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Our Ref: LGF10/46/40
Your Ref: PL/FSS/05

18 January 2005

Dear Mr Thorpe

PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2005/06

Thank you for your letter of 11 January to Nikki Hinde in response to the Government's proposals for the funding of local authorities' revenue expenditure in 2005/06.

Can I first of all assure you that Ministers will carefully consider the points you make, alongside all others, as they take final decisions on the Local Government Finance Settlement 2005/06. We will write to you again about the issues raised by Paul Looby on 3 and 16 December, once Ministers have announced their final decisions.

The Government's proposals provide for an average 5.6% increase in formula grant. Specific grants will increase by 9.3%. This means that since 1997, total grant to local authorities has increased by 33% in real terms.

This is another good settlement for local government. For the third year running the Government has been able to guarantee real-terms increases for all individual local authorities. The Government has also added an extra £408 million in formula grant above the published plans for local government, plus £200 million in unfenced specific grants. Together with other measures taken to address new burdens, reduce obligations and increase flexibility, this will help local authorities to meet pressures at a reasonable council tax cost.

Under the Government's proposals Torbay Council has again benefited from an above inflation settlement representing an increase of 5.5% on a like-for-like basis compared with 2004/05.

Following the Gershon review local government is expected to deliver at least £6.45 billion of efficiency gains by 2007/08. However, the Government believes that higher gains are attainable by local authorities and departments will be working in partnership with local authorities to help them achieve maximum efficiencies. Councils will be able to retain efficiency gains locally and use them for reinvestment in front-line services.

Given this substantial investment in local government and scope for efficiency gains the Government expects to see significantly lower council tax increases next year. The average council tax increase in England in 2005/06 should be less than 5% - this applies

to all authorities, including police and fire authorities. High council tax increases are a thing of the past. The Government expects all authorities to budget prudently next year and minimise demands on council tax payers. If they do not, the Government is prepared to take even tougher capping action next year than they did in 2004/05.

Yours sincerely,

Jay Symonds



Office of the
Deputy Prime Minister

Creating sustainable communities

APPENDIX C (ii)

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Dear Mr Looby

3 February 2005

LOCAL GOVERNMENT FINANCE SETTLEMENT 2005/06

Further to my letter of 16th December 2004, I am writing to you regarding FSS data for the Personal Social Services block.

In your letter of 16th December 2004 you queried the data in this block as a whole, suggesting that the overall level of FSS was too low.

The data have been checked and confirmed. The main reason for the figure being lower than you expected can be explained in the table below which shows all the population indicators used in the Personal Social Services block.

Table showing changes in Population Indicators for Torbay Council and England

Indicator	Torbay	England	Difference (percentage points)
midpop	0.3%	0.6%	-0.3
workpop	0.4%	0.7%	-0.4
pop0to17	-0.1%	-0.1%	0.0
pop18to64	0.5%	0.8%	-0.3
pop65plus	0.2%	0.8%	-0.7
pop75to84	0.7%	1.9%	-1.1
pop85plus	-1.7%	-1.8%	0.1

(Please note that the figures may not appear to add up due to rounding).

As you can see only one Torbay indicator shows a percentage increase or decrease in population above the England average (and that indicator is only fractionally above the England level).

As a result, you will see from the announcement of the 2005/06 Local Government Finance Settlement that the Personal Social Services data for Torbay Council have not changed.

Yours sincerely,

Paul Gaught

Appendix D

Efficiency Statement Proforma

Table 4.2 Template for backward-look on 2004/5 efficiency gains

Area	Quality cross-check met?	Activities undertaken to achieve efficiency gain	2004/5 annual efficiency gain (£)	... of which cashable (£)	Cumulative efficiency (£)	.. of which cashable (£)
Adult Social Services						
Children's services						
Culture and sport						
Environmental services						
Local transport						
LA social housing						
Non-school education services						
Supporting people						
Other cross-cutting efficiencies not covered above:						
- Corporate services						
- Procurement						
- Productive time						
- Transactions						
- Miscellaneous efficiencies						
Total						
Supporting narrative						