

Cabinet
1 November 2007**9. MONEY MATTERS****2007 Comprehensive
Spending Review
(Section 1)**

1. The Director of Financial Services recommends that the Cabinet:
 - (a) endorses his conclusions concerning:
 - (i) the 2007 Comprehensive Spending Review (Section 1)
 - (ii) Budgeting for Results 2008 to 2011 (Section 2)
 - (iii) financial progress this year (Section 3); and
 - (b) approves the projects contained in Section 4 and recommends the Council to add them to the Capital Programme.
2. The Chancellor of the Exchequer announced the conclusions of the Comprehensive Spending Review 2007 (CRS07) together with his Pre Budget Report on 9 October 2007. CRS07 contains spending plans for all government departments covering the years 2008/09, 2009/10 and 2010/11 and defines the key areas of improvement that can be expected from this expenditure. Funding for individual local authorities will be announced in the Provisional Local Government Finance Settlement in early December.
 - (a) **Key challenges for local government**
3. The review highlights four key areas where local government faces challenges:
 - increasing demand for adult social care
 - increasing need to reduce household landfill
 - increasing place-shaping role within communities
 - increasing expectation for modern and personalised services
 - (b) **Spending Plans**
4. For the three year period the spending plans for local authorities show:
 - Funding will be £2.6 billion higher in 2010/11 than in 2007/08, an average annual real terms increase in resources of 1% over the three year period. This is more than 1.5% less than it was under the last review CRS04.

- Council tax increases are expected to be less than 5% in each of the three years.
- National cash increases in formula grant have been shown as 3.8% in 2008/09, 2.8% in 2009/10 and 2.6% in 2010/11. It does not follow that Worcestershire will receive these increases. The Council will almost certainly receive the floor level increase. Allocations for individual authorities will be available in December 2007.
- Total Education spending in England is set to rise on average by 2.8% per annum in real terms but there are no details on how this will be allocated. There is to be an additional £200 million in capital expenditure to modernise primary school buildings and additional sums to support early years education, education of disabled pupils and personalised learning
- No specific growth in resources has been identified for pressures on Adult Social Care other than the overall increase planned for local government. There will be support for new policy initiatives such as independent living for both older people and those with learning disabilities.

(c) Funding Streams

5. There will be a reduction in specific and ring-fenced grants over the three year period. Most local authority funding will not be ring-fenced and will be delivered through the Revenue Support Grant (RSG) and the Area Based Grant (ABG), which has replaced the Local Area Agreement Grant. Nationally £5 billion of previously ring-fenced grants will be transferred to these general grants by 2010/11. In Worcestershire for the specific grants already identified it is estimated that, based on the current year's budget, £8 million will transfer to the RSG in 2008/09 and £14 million to the ABG. Specific grants will only remain where particular circumstances exist or there is no discretionary element to spend at a local level.

(d) Value for Money

6. The review expects a realisation of 3% annual cashable efficiency savings equivalent to £4.9 billion over the three years. Support of £150 million is being provided to support the delivery of these savings and an efficiency strategy is to be developed between local and central government.

(e) Local Authority Business Growth Incentives Scheme (LABGI)

7. LABGI is to be redesigned with local authorities views sought through a government issues paper. It is proposed there will be no scheme in 2008/09 and the resources distributed, £50 million in 2009/10 and £100 million in 2010/11, will be much reduced from the current scheme of

**Budgeting for Results
2008-2011
(Section 2)**

£1 billion over the three year period in CSR04.

(f) Business Rates Supplements

8. The government is publishing a White Paper on the introduction of powers for local authorities to raise and retain local business rate supplements. This power will be subject to levels of protection for business, with spending only available for a specified economic development purpose and subject to detailed statutory consultation. There will also be a maximum limit of 2p in the pound of rateable value (compared with Lyons recommendation of 4p), exemption for smaller properties and requirements for a ballot in certain circumstances. Based on the limited details available it is estimated that a 2p levy in the County would raise around £4.7 million.

(g) Performance Framework

9. There are also changes proposed to the performance framework for local authorities:

- There will be a simpler performance framework with a single set of local government priorities in Public Service Agreements and Departmental Strategic objectives.
- A reduction in number of national indicators down to 198
- A maximum of 35 national targets negotiated through the Local Area Agreements (LAA) plus 17 statutory targets for Education.
- A third round of LAA Reward Grant to encourage partnership working
- A greater emphasis on Asset Management.

10. During the week 17 to 21 September 2007 the Chief Officer's Management Board met with members of the Cabinet and their Advisors to consider the development of the Medium Term Financial Strategy mindful of the funding gap of £25 million forecast for the next three years.

11. The Appendix highlights the issues that have emerged from the work on the financial strategy undertaken in September. The main points to note are:

- Cashable efficiencies of £11.3 million have been identified;
- Measures to spend less and do less of £15.4 million have also been identified;
- New burdens of at least £3.4 million add pressure to the budget requirement; and
- There is still some way to go to eliminate entirely the £25 million funding gap. Action will be required to find

£1.7 million to bring income and expenditure into line.

12. There are options still to be considered and discussed with Overview and Scrutiny Steering Committee (OSSC) and until the local government financial settlement is announced towards the end of November or early December, firmer forecasts are difficult to make.

13. Consultation arrangements are in hand to assist the Council in its final budget deliberations. This will include dedicated web pages for public comment and a public opinion survey conducted by telephone through independent researchers.

14. The financial strategy for the next three years will be exceptionally challenging and tough choices will have to be made as service offerings delivered through directorates and partner agencies are aligned with what is affordable over the medium term.

**Financial Progress this
year
(Section 3)**

(a) Revenue Budget

15. Adult and Community Services' spending remains broadly in line with budget with no major variations anticipated at the end of the financial year. Managing demand for adult social care continues to be challenging within a cash limited financial regime. The Children's Services budget is being reorganised to reflect the Directorate's new integrated structure. The effects of the restructuring, the continuing demands on the Looked After Children budget and projected pressures on the music service are being managed within the overall budget. Money market activity has continued to produce favourable variances which will offset higher staff pay award costs and emergency flood response costs.

(b) 5% Levy school surplus balances

16. On 25 June 2007 the Government announced their decisions on the School, Early Years and 14-19 funding arrangements for 2008-11. One of the decisions was to confirm that in addition to the Council's own system for the management of excessive balances, local authorities will be required to re-distribute to schools in their area 5% of all surplus balances.

17. This issue has been communicated to all the County's schools as part of the Autumn Term 2007 Fair Funding Consultation 2008-11 and also as a separate letter confirming the Government's intentions.

18. The Department for Children, Schools and Families (DCSF) are currently consulting on the technical aspects of the introduction and implementation of this provision as part of the consultation on the draft school finance regulations for

**Capital Programme
update
(Section 4)**

2008.

19. Local Authorities will be required to calculate 5% of the most recent final positive revenue balances for their schools, deduct this sum from individual schools' budgets and add to the total Schools Budget. The current indication is that the provisions will operate on final balances at the end of 2006/07 for re-distribution in 2008/09. This would provide, allowing for those schools now closed during 2007/08, for approximately £617k to be re-distributed.

20 The Council and the Schools Forum will decide the methodology for the re-distribution of the resource locally. It could be redistributed to schools through the local funding formula eg pupil numbers, via a priority, or even applied to other areas of the Schools Budget.

21. If it is to operate as currently suggested the key issues for schools are: -

- There is no protection if any revenue funding is being accrued to support specific projects.
- It applies retrospectively, so schools will lose 5% of their 2006/07 balances even if they have subsequently spent the resource.
- It will encourage non-planned spending by schools knowing they will automatically lose 5% of their revenue balance.
- It will encourage schools to spend resources in advance of them being received or confirmed and may encourage schools to operate deficit positions.

22. These issues have been raised nationally, with a number of other local authorities reporting similar comments raised by their schools. The DCSF issued a letter on 12 October recognising the concerns on the retrospective nature of the proposals and have indicated the wish for the technical consultation to run its course with Ministers wanting to consider very carefully this aspect of the implementation in the light of the concerns of local authorities and schools.

(c) Investors in People

23. The Financial Services' Directorate was reaccredited with Investors in People recognition in October.

(a) Perdiswell Park and Ride – Purchase of Buses

24. The contract for the provision of bus services between the Perdiswell Park and Ride site and Worcester Crowngate Bus Station will cease on 24 February 2008. A tender exercise for the replacement contract has taken place including evaluation of in-house provision for the service.

None of the external tenders met the pre-determined minimum specification requirement and the best value for the Authority is achieved by an in-house provision of the service

25. In-house provision of Local Bus services is in accordance with the Draft Integrated Passenger Transport Strategy that was approved to go to consultation by Cabinet on 8 March 2007.

26. Annual net operating costs for the service is estimated to be £248,424 for 2008/9.

27. In order to operate the service in-house it will be necessary to purchase five new buses at a cost of £750,000. This sum will be added to the capital programme and the associated debt charges are included within the annual net operating cost.

(b) Department for Children, Schools and Families (DCSF) Capital Grants

28. The DCSF has approved the following capital grants for 2007/08:

- ICT Capital Grant for Mobile Technology to support Children's Social Workers £90,627
- Youth Capital Grant £244,231

(c) Worcester Library and History Centre

29. Following the progress report submitted to Cabinet on 28 September 2007 it is timely to confirm the financial contribution being made by the Council and partners. Details follow:

Detail	£m	£m
(a) Funding via the Private Finance Initiative (PFI)		43.3
(b) Other funding		
• Worcestershire County Council	6.6	
• Advantage West Midlands	7.0	
• University of Worcester	2.5	
• Worcester City Council	0.2	
Sub Total		16.3
Total		59.6

30. Other funding is forecast to be phased as follows:

Year	£m
Before 31 March 2007	2.9
2007 – 2008	2.5
2008 – 2009	6.6
2009 – 2010	1.7
2010 – 2011	0.7
2011 – 2012	1.9
Total	<u>16.3</u>

Other funding includes a provision for professional fees amounting to £2.8 million which will be charged to the Council's revenue account and funded by £1.9 million from earmarked reserves and £0.9 million from partners.

Supporting Information

- **Appendix** – OSSC Financial Summary October 2007

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Background Papers

In the opinion of the proper officer (in this case the Director of Financial Services) the following are the background papers relating to the subject matter of this report:

1. Annual Financial Statements for 2006/07.
2. Budget Book 2007/08.
3. Cabinet report dated 26 April, 24 May, 19 July and 28 September 2007.