

CABINET – 27TH NOVEMBER 2007

SUBJECT: PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2008/09

REPORT BY: DIRECTOR OF CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To advise Members of the key elements of the Provisional Local Government Settlement announced by the Welsh Assembly Government (WAG) and to indicate the detailed budget consideration process for 2008/09.

2. SUMMARY

- 2.1 The provisional settlement sets out the WAG intentions for next year and Members will appreciate all indications are that this settlement will be the most difficult for many years. In a recent statement by the Welsh Local Government Association to the Wales Finance Committee on the WAG draft budget they stated:-

“The level of under-funding will result in service reductions on a scale not seen in many years and in some Councils severe job losses”.

- 2.2 The Provisional Settlement for Caerphilly, having been adjusted for transfers in and out and for new burdens amounts to an increase on last year of 2.8%. Given the continuing service pressures on the budget (and the continuing requirement to find a 1% efficiency saving, rising fuel costs and increasing interest rates), there will be little room for service growth and indeed service cuts almost look like inevitability.
- 2.3 The starting point for budget preparation will commence with the re-pricing of current years services to reflect inflation etc.
- 2.4 In previous years any budget growth was prioritised on previously agreed medium-term budget priorities. However, given the financial challenges this budget poses, this will highly likely not be the case, given the financial constraints of this provisional settlement. It is still likely that unavoidable service pressures will only be supported by offsetting and reprioritising existing expenditure together with reductions in expenditure elsewhere.
- 2.5 Work continues to identify these service pressures. However, apart from the unavoidable service pressures to frontline services, we are seeing demand particularly in respect of higher energy costs, job evaluation, waste (gate fees), external residential fees and increased interest rates. It is also likely that we will need to determine any potential equal pay liabilities in the 2008/09 financial year.
- 2.6 Cabinet needs to be aware of the key issues arising from the settlement and agree appropriate processes to be adopted in determining the budget for 2008/09.

3. LINKS TO STRATEGY

- 3.1 The Council's budget and financial strategy underpins the delivery of all the Council's strategies.

4. THE REPORT

The Settlement

- 4.1 On 14th November 2007 WAG announced its Provisional Settlement for 2008/09 – the final settlement is anticipated in approximately 4-6 weeks time. The headline figures are set out below but Members will be aware of the political debate within WAG, given the tightness of this year's settlement, so there remains a high level of uncertainty as to the final settlement. Although experience in previous years does not suggest significant changes.

	2007/08 (adjusted)	2008/09	
	£000	£000	% Increase
Standard Spending Assessment	277,849	286,153	3.0%
Total WAG Support (RSS and NNDR)	231,593	237,983	2.8%
Deprivation Grant	2.466	2.466	0%
Performance Incentive Grant	1.898	1.898	0%

- 4.2 The key features of this settlement are:-

- The average increase in funding for local authorities in Wales is 2.3%
- The increase for Caerphilly County Borough Council is 2.8%
- WAG has produced indicative settlement figures for 2009/10 and 2010/11. For Wales the average is 2.6% and 2.8% respectively and for Caerphilly 2.8% and 2.7% respectively.
- WAG have again assumed a 1% efficiency saving and this is taken into account within our allocation.
- The Deprivation and Performance Incentive Grants continue at 2007/08 prices.
- The Local Authority Business Incentive Grant does not appear in the provisional settlement (approx £200k for Caerphilly).
- It is noticeable that Social Services were not mentioned at all in the Ministers Statement and it appears that WAG appear to have failed to recognise the inter-dependency of the NHS and Social Care Services.
- There is a £20m increase in grant for Wales for Waste Management and £25 for Foundation Phase (Education) but no details have yet emerged on how this is to be distributed amongst local authorities. WLGA have already indicated that both these allocations are significantly short of funding requirements.
- Whilst it has been suggested Education will enjoy on average a 4% increase across Wales, this is a little disingenuous, as almost 2% of this is made up of Assembly funded education and training services (including further education), higher education and various other initiatives such as Flying Start, therefore Education provision is only likely to increase by some 2.0% - 2.3%.

- 4.3 The Provisional Settlement also identifies transferring out of Integrated Pollution Prevention Control £846 and £37,794 for Better Schools match funding. With transfers in of £828,000 for Early Years, £6,929 for LEA Partnership Agreements; £413,067 for Cymorth; £116,370 for Civil Contingencies and £13,496 for Trading Standards responsibilities.

- 4.4 The figures at this stage are of course provisional and subject to the usual caveats and as stated previously we are awaiting further details on specific grants and new burdens. Therefore, at this stage it is difficult to forecast with any real accuracy overall the likely budget situation.

- 4.5 On the capital side, there is negligible growth of 0.4%. However, we should not lose sight of the specific monies set aside for the development of Angel Way, School Building Improvement Grant and Ystrad Mynach Highways grant to support the new Ysbyty Ystrad Fawr development. Additionally, it is absolutely imperative that we continue to monitor and evaluate capital scheme progress and continue to maximise capital receipts where available to support our capital programme.

Expenditure Needs

- 4.6 In its submissions on 8th November to WAG, the WLGA assessed the increased expenditure needed for 2008/09 for local authorities in Wales, in doing so, and it suggested that WAG had ignored evidence previously submitted through the Expenditure Sub-Group. The WLGA submitted that WAG had ignored significant policy areas including:-

- The rising number of children with increasingly complex needs
- The rising number of adults with a learning disability
- The ageing population
- The deterioration in conditions of local roads
- Additional costs incurred as a consequence of migrant workers and their families
- Equal pay
- The setting of aspirational targets in their policy areas with no chance of them being met
- The failure to recognise existing costs within the system
- A failure to recognise the contribution efficiencies are already making

However, it is already clear that there is no more money and any changes to meet these priorities will need to be provided within existing funding limits.

- 4.7 At a more local level, Members will be aware of reports to the various Scrutiny Committees of existing cost pressures within the system and every effort needs to be made to reduce any burdens going into future year.
- 4.8 However, notwithstanding 4.5 above, we are identifying significant cost pressures over and above the monies available to us and if these were to be fully funded we would probably require an uplift of at least 7%.
- 4.9 In our budget settlement for 2007/08, it was anticipated that the plethora of hypothecated grant would reduce given WAG's announcements "bonfire of bureaucracies". However, this has not materialised with only Early Years, LEA Partnership Agreements, Cymorth, Civil Contingencies and Trading Standards grants becoming part of the mainstream RSG. There continues to be a further 43 hypothecated grants in the provisional settlement, which we are interrogating to determine potential impact. However, at this early stage it would appear that apart from the Deprivation Grant and Performance Incentive Grant, which remains at 2007/08 prices with most other grants specific to Caerphilly rising between 2%.
- 4.10 Deprivation Grant (£2.5m) and Performance Incentive Grant (£1.9m) remain at 2007/08 levels essentially a cut, however given that these had potentially been under threat, it is possible to continue to provide services currently, which these grants support albeit at a slightly reduced level.

Budget Efficiency/Cost Savings

- 4.11 The exercise of identifying the £2.5m in respect of budget efficiencies is now underway and this will form an essential element of the 2008/09 budget strategy.
- 4.12 Additionally, the process of re-prioritisation of services and determining potential service cuts is currently being worked through and again this requires further work and will be presented to Members as part of the 2008/09 budget proposals.
- 4.13 It is important to note however that this year WAG have also determined 'indicative' funding levels for 2009/10 and 2010/11 and again the picture is pretty bleak with the likely budget uplift for Caerphilly being 2.8% in 2009/10 and 2.7% for 2010/11. It is essential therefore that

any medium term budget assumptions that have previously been made are reconsidered in light of this extremely challenging settlement.

5. FINANCIAL IMPLICATIONS

- 5.1 The financial implications are set out in the body of the report.

6. PERSONNEL IMPLICATIONS

- 6.1 There will be personnel implications arising from the eventual budget strategy but it is too early to comment at this stage.

7. RECOMMENDATIONS

- 7.1 Members note:

- (a) The key elements of the Provisional Settlement
- (b) Recognise the extremely challenging Provisional Settlement for Caerphilly CBC

- 7.2 Members determine and consider the budget setting process for 2008/09.

8. REASONS FOR THE RECOMMENDATIONS

- 8.1 To enable a budget framework for 2008/09 to be established/progressed.

9. STATUTORY POWER

- 9.1 Local Government Act 1972 and 2000. The contents of this report are a Cabinet function.

10. CONSULTATION

- 10.1 There are no consultation responses that have not been taken into account in this report.

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Background Papers: WAG Announcement