

Report to: **Resources Scrutiny Committee**
Date: **24th January 2006**
Report of: **Director of Finance and Corporate Services**
Subject: **Budget Strategy – 2006/7 to 2008/9**
Ward: **All**

1. Purpose of the Report

1.1 To brief the Committee on the background and approach to the Council's budgets for 2006/7 and the Medium Term Financial Plan 2006/7 to 2008/9.

1.2 To advise on the council tax and rent proposals for 2006/7.

Appendix 3 is a Glossary of terms to assist members with the terminology of the report.

1.3 To advise of changes to the Medium Term Strategy.

1.4 To advise of efficiencies identified to date some of which will be included in the Council's Annual Efficiency Statement for 2006/7.

2. Consultation

2.1 The above proposals have been discussed with the Executive and the Management Team.

2.2 The estimates have been prepared from service plans, which are linked to the Council's priorities.

3. Summary of the Position to Date

Please note that the budget proposals are still at a draft stage.

! The Council's budget will show an under-spend of just under £500k for 2005/6 primarily due to increases in investment income of £328k. The indications for 2006/7 are that we will be able to set robust general fund and housing revenue account budgets. Members should note that when the 2005/6 budget was set we estimated that £308,000 would be required from reserves, this is no longer necessary.

! The Council will have the option to set a council tax increase of around 2.5% for 2006/7 and 2007/8, which is linked to the inflation rate. (£4.12 on a Band D property, and £2.75 on a Band A).

! The Council received just under £2m in additional grant for 2006/7. The year on year increase for 2006/7 and 2007/8 was adjusted at £347,000 (3%) and £316,000 (2.7%) respectively. The additional grant of £1.6m was to cover new burdens and transfers of function including concessionary fares. The settlement gives us certainty over the next 2 years.

! We reviewed the Medium Term Financial Plan in September; setting ourselves a base budget reduction target of £1.4m over the next 2 years to address the

financial pressures and ensure the Council meets future priorities. The Council has met the target for 2006/7 bringing the budgets back into balance for at least the next 2 years.

- ! Reserves are still strong and will be needed to manage pressures identified in this report.
- ! Following the 2004 Spending Review the Government set the Council an efficiency target of £1.8m over 3 years. The budget reductions identified in this report will contribute to our target.
- ! Although capital allocations are not confirmed they are expected to be in the region of £1m a reduction of £1.3m compared to previous years. Capital receipts are still buoyant and will enable the Council to embark upon a capital programme of around £16m. in 2006/7. We are also awaiting confirmation of a capital grant of £1m for private sector housing renewal.
- ! The new subsidy regime has assisted the HRA once again in 2006/7 but the decline in stock will affect rent income offsetting gains. Disappointingly the final settlement was reduced by £200k and clearly the position will need to be monitored closely. Although not quite finalised good progress has been made to agree the 2006/7 Management Fee for East Durham Homes.

4. Grant Settlement 2006/7 and 2007/8

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- 4.1 The government introduced a 4 block option for 2006/7 to simplify the position. The intention of the new system is to focus on grant rather than notional measures of spend and council tax. It is fair to say that with the introduction of minimum grant increases the former system of Formula Spending Share was confusing.
- 4.2 The new system in effect adds an additional layer of calculations on top of the existing formula spending share (FSS) calculations to allow a simpler presentation. The intention of the new system is to focus on grant and not on notional measures of spending and council tax. The system is based on 4 blocks of cash.
 - Relative needs amount
 - Relative resources amount
 - Central allocation and
 - Floor damping
- 4.3 The amount of cash nationally is the level of grant determined in the government spending reviews. The size of the total of the relative needs and resources blocks is set by judgement.
- 4.4 Each authorities cash allocation is based on the total of its allocations across the 4 blocks. The calculation of the block allocations being based on the FSS calculations, population, tax base and the damping mechanism.
- 4.5 The formula grant allocation to authorities was previously based on an annual calculation of the FSS formula. Changes were due to either control total, data or methodology changes. The introduction of the 4 block option has seen a fundamental change to the local government finance system, and in particular how the grant is calculated. However,

grant allocations will still be dependent on changes to the control total, data and methodology.

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- ! Year on year grant increased by £347,000 or 3%. The settlement was better than expected and increased following an adjustment to grant for 2005/6. The adjustment inflated the grant figure by £1.6m to reflect changes in responsibilities, in particular the free concessionary fares scheme. This meant the percentage increase was applied to a higher figure and we benefited by further grant of £50,000.
- ! The settlement covered two years, the increase in grant for 2007/8 being set at £316,000 an increase of 2.7% on 2006/7. This brings the settlements in line with the 2006 Spending Review and will lead to 3-year settlements from 2008/9.
- ! Shortly after the settlement was announced the government issued a further communication stating that council tax increases should not exceed 5% and 'limitation powers' will be used where necessary.

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4.7.1 In addition to the year on year-adjusted increases, the council has had grant increased by over £1.6m to address additional responsibilities and burdens which were identified as follows: -

- Equality for disabled people
- Freedom of Information
- Civil Contingencies (Emergency Planning)
- Electoral Registration
- Concessionary Bus Fares – statutory free fare scheme

Individual sums of money were not identified in the settlement the increase being rolled into the overall settlement.

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4.8.1 Of the £1.6m it is estimated that around £1.45m was attributable to the new statutory fares scheme whereby travel within the Districts boundaries will be free from April this year. The estimate is crude and based on data received during the consultation period.

4.8.2 Whilst full details of the scheme to be adopted was not finalised at the time the report was written around £1.4m will be committed to the concessionary fare budget for 2006/7. =

5. **Medium Term Financial Strategy/Plan - 2006/7 to 2008/9**

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5.1.1 The Medium Term Financial Strategy (MTFS) was reviewed in September and the revised strategy is set out in Appendix 1. The strategy includes amendments to the operational framework agreed by the Executive in the September review, the assumptions made in the budget process and key issues facing the Council.

5.1.2 When the review was carried out in September we identified a budget deficit of around £1.3m to be addressed for 2006/7 onwards. A target of £1.4m was set with £1m to be achieved for 2006/7 and a further £400,000 for 2007/8. I'm pleased to report that efficiencies of just over £1.6m have been achieved which has addressed the deficit. Appendix 2 sets out the main areas where efficiencies have been made.

5.1.3 The revised projected position is set out below.

Position – September 2005

Budget Position	2005/6	2006/7	2007/8
Shortfall	£18,172	£1,282,937	£829,992
Surplus			
Level of Reserves	£2.796m	£1.613m	£0.29m

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Revised position - post efficiency exercise

Budget-Revised	2005/6	2006/7	2007/8	2008/9
Shortfall				£483,166
Surplus	£192,000	0	0	
Level of Reserves	£3.423m	£3.368	£2,938	£2.455m

5.1.4 Taking account of the above and the efficiencies achieved the medium term position has improved dramatically producing an estimated break-even position for the next 2 years. We are projected to return to a shortfall position in 2008/9 but by then some of the uncertainties outlined above will be clearer and we will have taken action to counter the position.

5.1.5 The above position takes into account the use of reserves of £1.5m.

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- Superannuation costs still increasing year on year to meet pension fund deficit.
- E Government programme – maintenance costs of new systems.
- Service level agreements covering environmental operations, vehicle maintenance and central support services are currently being reviewed by East Durham Homes and there is likely to be a significant impact on the general fund following the outcome of that review. The agreements under review provide income of around £1.5m to the Council albeit some elements may be a transfer of costs.
- The costs of the new free fares scheme for the elderly and disabled is uncertain as we have no idea of demand, changes in travel patterns following introduction and there could be additional costs from the bus operators in terms of set up costs and for example fare increases.

- Externally Funded Posts is still an issue particularly in regeneration/community development.
- Potential fall in investment income as reserves decrease and capital receipts slow down.
- Addressing the Disability Discrimination implications for all council buildings.
- Demands on homeless.
- Development on the contact centre

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- New initiatives from the government will require a review of priorities.
- The outcomes from the recent CPA pilot will require consideration.

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5.3.1 In reviewing the medium term position the following growth was anticipated for 2006/7.

- Extension/Mainstreaming of Street Wardens Scheme - £460k
- NRF Phased Mainstreaming - £88k
- Head of Customer Services - £50k
- East Durham Business Service – Support for Marketing - £25k
- New hardware platform for the Financial Management System (Provisional) -£40k.
- Travellers Strategy - £6k
- Tourism Initiative - £10k for 2 years.
- Concessionary Free Fares Scheme for the Elderly and Disabled – base budget increased by £1.2m for 2006/7. This was funded through increased general grant.

6. **Approach to the 2005/6 – General Fund**

6.1 The budget efficiency exercise coupled with a fair grant settlement has left us in an unusual position compared to previous years. Whereas in the past we were waiting for the grant settlement to be announced to determine the final budget position the efficiency exercise left us in a position where we could balance the budget, including growth without utilising the year on year grant increase.

6.2 In saying that the impact of the concessionary free fare scheme was not included and therefore needs to be financed from the additional grant. An additional £1.2m will be put in the base budget with a further £200k set aside to meet any one off and additional costs which may evolve. Details of the new scheme will be reported to members shortly.

6.3 Taking account of the concessionary fares issue and the additional service/ cost pressures outlined in paragraph 5.2, in particular those relating to Service Level Agreements with East Durham Homes I propose to include a contingency of £500k in the base budget for 2006/7 and transfer around £300k into a reserve to deal with

potential increased costs arising from the new fares scheme and potential costs of managing the change arising from the review of the service level agreements.

6.4 If the above is agreed we can balance the budgets for 2006/7 and 2007/8 without using general reserves and hopefully address some of the emerging issues outlined above.

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6.5.1 In finalising the budget I will be able to propose an inflationary council tax increase of 2.5% for 2006/7 and 2007/8. If accepted the increase in 2007/8 will be the 5th consecutive year of low increases. We have all worked hard to stabilise the budget and as part of that it is felt we can sustain reasonable and acceptable year on year increases. This approach is consistent with our strategy and gives taxpayers year on year stability whilst at the same time increasing the council tax base.

6.5.2 The table below outlines the Council's consistent approach to the tax over the last 6 years; our approach is consistent with government assumptions and significantly below regional and national increases.

Year	Government Assumptions	District of Easington - (%)Increases	Regional Increases (%)	National Increases (%)
2000/2001	4.5	4.5	5.2	6.1
2001/2002	4.5	4.5	4.9	6.4
2002/2003	5.2	7.5	8.2	8.2
2003/2004	3.7	3.0	8.7	12.9
2004/2005	3.8	2.9	5.1	5.9
2005/2006	6.2	2.9	4.1	4.0
<i>Cumulative</i>	<i>27.9</i>	<i>25.3</i>	<i>36.2</i>	<i>43.5</i>
<i>Average Annual Increases</i>	<i>4.7</i>	<i>4.2</i>	<i>6.0</i>	<i>7.25</i>

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6.6.1 Robust financial management arrangements are key to delivering the strategy and resolve the issues outlined above. It will be crucial to strictly monitor the budgets and regularly review the medium term plan. Whilst the budget is stable for 2 years we must maintain pressure on the base position, in order to sustain the position and create flexibility for growth. For future budgets we may consider: -

- Injecting more risk into budgets; the levels of savings indicate some capacity.

- Using reserves in the short term to allow time to realign resources and where necessary pump prime efficiencies in the base budget.
- Further examination of all budgets for efficiencies or income generation options.

6.7 *re-aligning resources - efficiency*

6.7.1 At the time of writing the Council is awaiting our assessment on use of resources as part of our Direction of Travel assessment. During the year we have identified that we need to improve our processes to be able to demonstrate that we are delivering value for money, officers will target this area during 2006/7.

6.8 **Conclusion – General Fund**

6.8.1 Measures undertaken over the last 6 months have stabilised our budgets in the medium term, however we will continually be faced with cost pressures and therefore if we are able to meet our future priorities and make a difference in our communities we must continue to search for efficiencies to realign our budgets.

6.8.2 Over the coming weeks the Council will be reviewing its priorities and non priorities which will inform future resource allocation.

7. **Capital Programme - Main Issues**

- Although not finalised we expect a capital programme of around £16m.
- Housing Capital Allocations have been set for 2 years and for 2006/7 the allocation is £1m. a reduction of £1.3m compared to last year. Members are reminded that the allocations are borrowing approvals where costs are supported by grant. We are awaiting confirmation of a capital grant of £1m to address private sector housing renewal.
- The Council's Major Repairs Allowance for 2006/7 is expected to be £4.7m. This compares to £4.8m last year, the reduction in real terms is due to the fall in housing stock.
- Capital receipts are still buoyant but we must be aware that they will slow down in future years. We have prioritised decent homes but clearly it is essential that we succeed in the next ALMO inspection to secure the necessary funding to improve our housing stock.
- The prudential code of borrowing was introduced in April 2004. Unfortunately whilst it is a financing option designed to increase council freedoms, opportunities are limited because the cost of unsupported borrowing impacts on council taxes and rents and the government demands low increases in these areas. Whilst there may be an impression that controls are being loosened this is not the case. Due to increased capital receipts and in order to increase investment income in 2005/6 I prematurely used receipts to repay debt during the year. When financing is required for the capital programme the receipts will be replaced by prudential borrowing.

8. **Housing Revenue Account (HRA) – 2005/6 forward**

8.1 The position on the HRA still requires work but some of the issues emerging are set out below. Falling housing stock, which of course reduces rent income is an issue for this account and as with the general fund the key to sustaining this account is medium to long term financial planning. East Durham Homes are currently preparing a Business Plan in conjunction with the Council, which will contain measures to sustain the account.

8.2 The position on the HRA still requires work but some of the issues emerging are set out below.

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- ! Management and Maintenance allowances have increased by 12% and 11% respectively.
- ! Rent income allowance has increased by 8.5% the government having rebased individual rent levels.
- ! For 2006/7 rent increases have been capped by the government at an average of 4.7%, this largely offsets the increases in management and maintenance.
- ! Major repairs allowances were increased by 5%.
- ! If the housing stock reduces by 10% in the current financial year we could benefit from a subsidy 'windfall' of £750k.

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- ! It is proposed to increase rents by 4.7% in line with government expectations, the increase equates to around £2 per week.

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- ! HRA minimum reserve will be recommended at around £800k but further consideration is required given the 3* strategy which has been recently approved.
- ! The management fee for East Durham Homes is close to agreement at around £10.3m an increase of £800,000 on last year. This increase represents a 2.5% increase on the 2005/6 fee plus £500,000 to address the revenue repairs issue which emerged in the current year.

9. Implications

9.1 Policy

The budget is prepared in accordance with the Council's corporate plans and priorities.

9.2 Legal

The budget will be prepared according to the statutory requirements.

9.3 Financial

The financial implications are set out in the main detail of the report.

9.4 **Risk**

A risk analysis has been undertaken and actions put in place to manage those risks.

9.5 **Communications**

The budget when finalised will be communicated through press releases, the next edition of Infopoint and will be placed on the Council's Web Site.

9.6 **Corporate Plan and Priorities**

The growth proposed is aligned to the Council's objectives and agreed priorities.

9.7 **Performance Management and Scrutiny**

Outcomes arising from the budget will be reflected in service plans and will be monitored through the Council's performance management process.

9.8 **Implementing Electronic Government**

The budget addresses and resources the Council's commitment to meeting priority service outcomes arising from the E. Government targets.

9.9 **Procurement Issues**

Procurement arising from the budget will be conducted in accordance with the procurement strategy

9.10 **Equality and Diversity**

None.

11. Recommendations

- 11.1 The strategy will inform the 2006/7 general fund and HRA budgets which will be presented to Executive and the Council over the next 6 weeks or so and the Committee is invited to comment

Background Documents

Grant Settlement Notification from ODPM – December 2005

Out turn Report to Executive – 05/7/05

Budget Report to Extraordinary District Council – 25/2/05

Bi Monthly Budget monitoring Reports to Executive – 2005/6 financial year

Capital Allocations from the regional Housing Board-ODPM – December 2005

Budget2006-7-4executivebudgstr14012006

MEDIUM TERM FINANCIAL STRATEGY

The Strategy

The strategy will provide an overarching framework in which to develop medium to long term financial plans.

1. That broadly the council maximises spend in line with the changes to the Spending Formula (FSS) and taking account of the council tax policy.
2. That resources are directed towards the priorities identified by the Council
3. That in considering council taxes that cognisance is taken of the socio- economic problems of the area and the impact of, high council tax increases on taxpayers on low incomes, the low level of wealth and indeed the low tax base of the area.
4. That the Director of Finance and Corporate Services monitors the plan taking into account the key issues facing the Council.
5. That bids for future growth be initially considered from efficiencies from existing budgets and thereafter each case to be considered on its merits against other priorities of the council.
6. That through various bodies the Council continues to campaign for a better deal for the Council and deprived areas.

Operational Framework

The operational framework is the day-to-day parameters for delivering the strategy. The framework will be subject to regular review.

1. **Reserves in excess of the prudent balance**

Within the strategy the Council will maintain a prudent balance of, £1.5m to meet unforeseen or unavoidable items of expenditure, which may occur.

2. **Reserves in excess of the prudent balance to be used to pump prime initiatives**

Reserves in excess of the prudent balance to be used to pump prime initiatives as agreed by the Council and to stabilise the base budget in the short term until the budget is fully integrated with the council's corporate plans.

Such an approach will take pressure off the base budget and enable future revenue

savings initiatives to be financed in the short term. Monies for Electronic Service Delivery being a good example. =

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That the Council maximises borrowing to enhance the Capital Programme therefore providing investment in the area. As a general rule the Council should not borrow to fund revenue expenditure. =

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It is proposed that the current policy for the use of capital receipts be continued on the basis that they are pooled and that usage is considered on a corporate basis.

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Existing charges for services are to be reviewed annually in accordance with the council's Trading and Charging Policy.

In considering charges members should be provided with the following information where applicable: -

Current Year Charge	X
Proposed Charge	X
Percentage Increase	X
Estimated Additional Income	X
Income as a % of expenditure	X
Subsidy /Surplus per user (if applicable)	X
Reason for Subsidy (if applicable)	X
Analysis of the impact of the charge	X

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Where new initiatives are to be funded in total or in part by external funding a report will be made to the Executive Committee to include the following: -

- The council priority
- The outcomes to be derived together with timescales
- The full financial implications of the initiative
- Exit strategies including human resource/financial implications.

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Efficiency plans should be incorporated into service plans as part of the budget setting process.

Appendix 1/2

MEDIUM TERM FINANCIAL STRATEGY - ISSUES FACING THE COUNCIL

- \$ Pension Increases
- \$ Insurance costs
- \$ Potential transfer of costs from HRA to General fund following review of Service Level Agreements.
- \$ Meeting the Decent Homes Standard
- \$ Best Value review of Corporate Services.
- \$ Community Engagement
- \$ Financial Implications of external funding regimes
- \$ E Government/Accessibility of Services/Priority Service Outcomes
- \$ Premises /Disabled Discrimination Act (DDA)
- \$ Demand on Capital resources – Decent Homes/DDA/Egovt/Leisure Centres
- \$ Supporting People
- \$ Social Inclusion/young People/Elderly/Equality
- \$ Human Resource Issues around Capacity/Performance Management/Change Culture and Training
- \$ Waste Recycling
- \$ Central Government demands on local authorities – (Potential Local Government Review/ Lyons Review/Neighbourhood empowerment).
- \$ Efficiency Strategies and evidencing value for money.

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BUDGET EFFICIENCIES 2006/7**SAVINGS IDENTIFIED IN REVIEW OF THE MEDIUM TERM
FINANCIAL PLAN**

	£000's £000's	
Concordat review	25	
Green Waste strategy	80	
Administration	70	
Contract Buy Out	87	
Leisure Services Management Fee	88	
Savings in borrowing charges	<u>200</u>	550
DIRECTORATE SAVINGS		539
OTHER AREAS		
Loan charges – one off 2006/7	170	
District Audit Fee	50	
Transfer of Pension Costs to the HRA	<u>300</u>	<u>520</u>
GRAND TOTAL		<u>1609</u>

Glossary of Terms

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The total level of support Government provides to local authorities. It is normally made up of Revenue Support Grant, specific and ring fenced grants and grant redistributed from National Non Domestic Rates.

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The scaling factor applied to the formula to reflect higher costs -mostly pay in some council areas.

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The amount each authority estimates it will spend after deducting any funding from reserves and any income it expects to raise other than council tax and grants.

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The means by which local businesses contribute to the cost of providing local authority services. Rates are paid into a central pool and then divided between authorities on the basis of the number of residents each authority has.=

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A local tax set on domestic property

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>Damping is used to describe the way the phasing of changes to the >Formula Spending Share.= (FSS). It limits the effects the changes may have on council tax levels and allows authorities time to adjust to the changes. The damping mechanism is the floors and ceilings arrangement.

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An element of a Council=s costs which do not vary in size. Mainly consists of the costs of the corporate and democratic core and sometimes described as >the costs of being in business, not the costs of doing business.=

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Comprises of Revenue Support Grant and redistributed business rates grant =

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Is the annual determination of formula grant distribution as made by the Government and debated in Parliament. It includes

S the totals of formula grant

S how the grant will be distributed between authorities and

S the support given to other local government bodies.

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Is an authority=s budget requirement and use of reserves.

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This is the amount of council tax income the County Council, Parish Councils and the Police Authority need to provide their services. They levy the precept on the Billing Authority, which collects the tax. *b-éááŮíçá-áé--ÁáááááŮ-ì íŮçéáíó.*

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An authority, which sets a precept to be collected by the billing authorities. Durham County, the Durham Police Authority and the Parish Councils are precepting authorities for the District.

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Is a Council=s surplus income in excess of expenditure and can be used to finance future spending.

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Is day-to-day or recurring expenditure financed by AEF Grants, council taxes and reserves.

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A government grant plugging the gap between the Council=s FSS and the amount it should receive from Assumed National Council Tax and redistributed business rates.

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A grant paid to an authority which has conditions attached to it, which restricts the way it which it can be used.=

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Specific formula grants, targeted or ring fenced grants are sometimes referred to as specific or special grants. A specific grant is paid under a specific legislative power whereas a special grant uses a general power to pay grants.

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A grant distributed outside the formula grant distribution system but with no conditions attached.

q-éŮÉíÉÇ-dè-áí

A type of ring-fenced grant, which has conditions, attached which specify a broad outcome.

qçí-á-^éèì áÉÇ-péÉáÇááŮ

The amount of spending by local government as a whole, which the government is prepared to support through grants. Formerly >Total Standard Spending=

fíĒã=âçk=

=

=

m-0Ē=NT