

Subject: Local Government Finance
Settlement 2008/09 – 2010/11

Status: For Publication

Report to: The Cabinet

Date: 12th December 2007

Report of: Head of Finance

Portfolio

Holder: A Well Managed Council

Key Decision:

NO

Forward Plan
Relevant Box

General Exception

Special Urgency

“X” In

1. PURPOSE OF REPORT

- 1.1 To inform members of the results of the Local Government Finance Settlement announced on 6th December and set out the implications for the Council's Medium Term Financial Strategy

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report have the capacity to impact upon all the corporate priorities

3. RISK ASSESSMENT IMPLICATIONS

- 3.1 This report identifies certain financial risks arising from the settlement. However, at this stage it is too early to identify potential mitigation for such risks.

4. BACKGROUND AND OPTIONS

- 4.1 The Local Government Minister announced the first three year local government finance settlement on 6th December. In addition to the usual announcement on Formula Grant details of a range of specific and capital grants were also announced, although for some only national totals are available at this stage and further information will become available over the next few days. In his statement the Minister described the settlement as “tight....but....fair”.

4.2 Some changes have been made to the formula for distributing Formula Grant. However, as they mainly affect the service formulae they have no impact on Rossendale. The major change that does affect Rossendale is to give greater emphasis to the ability to raise income through Council Tax, and as illustrated below this seems to have had some benefit to the Council.

4.3 In understanding the grant for the coming year it is first important to understand the revised baseline which effectively restates the 2007/08 grant to reflect changes in responsibility or movements from specific grant to Formula Grant. The reason for this is to allow meaningful year on year comparison. Rossendale's revised baseline for 2007/08 is shown below:

	£000
Actual Cash Formula Grant 2007/08	6,109
Move Waste Performance and Efficiency Grant in to Formula Grant	+28
Changed funding for Contaminated Land work	+1
Costs of the new conduct regime for Councillors	+2
Transfer of stray dog responsibilities from the Police	+4
2007/08 Revised Baseline for Formula Grant	6,144

4.4 The headline figures for Formula Grant over the next 3 years are as follows:

	Rossendale Cash Grant £000	Rossendale % Change	Lancashire Districts % Change	All Districts % Change
2007/08	6,144			
2008/09	6,208	1.0%	1.9%	1.7%
2009/10	6,239	0.5%	1.6%	1.4%
2010/11	6,270	0.5%	1.4%	1.3%

4.5 Clearly it is disappointing that Rossendale's increase in grant is less than the average of both our Lancashire neighbours and of all shire districts, indeed the cash increase is the lowest of any Lancashire district. The difference is worth between £40k and £78k in 2008/09 and similar amounts in the following years. The reason for the change in grant is driven by four factors:

- Resource Equalisation – This is the Council's ability to raise income through Council Tax, and the weight given to this is the allocation of grant.
- Methodology – This is the effect of changes in the underlying formulae
- Changes in Control Totals – This is the difference caused by the change in the total amount of grant to be distributed.
- Change due to Data – This is the effect of changes in the underlying data used in the various formulae, e.g. population, density/sparsity of population, benefit claimants etc. In this area a Council will be affected by the degree to which its data has changed relative to other councils.

4.5 The raw grant arrived at through these changes is then adjusted by a Floor to ensure that all councils receive a year on year cash increase in grant. The table below illustrates the underlying reasons for changes in grant (please note figures are rounded for simplicity)

	2008/09		2009/10		2010/11	
	£000	%	£000	%	£000	%
Baseline Grant	6,144		6,208		6,239	
Resource Equalisation	74	1.2%	0	0.0%	0	0.0%
Methodology	7	0.1%	0	0.0%	0	0.0%
Control Totals	99	1.6%	106	1.7%	94	1.5%
Data	-110	-1.8%	-99	-1.6%	-113	-1.8%
Raw Grant	6,214	1.1%	6,215		6,220	-0.3%
Floor Effect	-6		24		50	
Actual Grant	6,208		6,239		6,270	

4.6 What this illustrates is that the Council gains significantly from the changed weightings for the ability to raise resources through Council Tax and marginally from the formula changes, which only impact in the first of the three years. However, in all three years the effect of the increase in available resources nationally is outweighed by how Rossendale's data is moving relative to other councils. This is to some extent supported by the recently issued revised indices of multiple deprivation, where Rossendale's ranking (92nd) has remained steady but those of our neighbours (other than Ribble Valley) have declined. However, the way data impacts upon the grant formula is incredibly complex and it would be virtually impossible to determine which particular element of data is moving against the Council. Certainly looking at the individual blocks which make up the grant formula it would appear that data are having a negative impact on relative need to spend in the Borough, which would go the same point as the one concerning the Indices of Deprivation i.e. that while there is deprivation in Rossendale which should attract grant other areas are relatively more deprived and, perhaps, becoming more so.

4.7 Once again it is clear that the settlement treats both District Councils and Fire Authorities less favourably than those authorities with Education and Social Services responsibilities and the Police. This was anticipated and reflects the Government's policy emphasis and the significant financial risks around Adult Social Care.

4.8 The Government's view, set out in the Minister's Statement is:

"We expect the average Council Tax increase in England to be substantially below 5%. We will not hesitate to use our capping powers, as necessary, to protect council tax payers from excessive increases"

- 4.9 In effect the Government are restating the effective capping limit of a 5% increase and emphasizing the national local government efficiency target of £4.9bn over the three years of the settlement as a way of mitigating the tight settlement, reducing pressure to reduce services and keep council tax increases within bounds. Ministers have also emphasised councils' powers to trade and charge for services as a means of reducing the financial gap.
- 4.10 The position locally is that in cash terms the year 1 grant is £26k less than forecast, which is a manageable amount. The differences in the following years where the data changes have most effect are £120k and £214k less than forecast. It should be emphasised that the effect of relative data changes cannot be effectively forecast without running the whole national formula locally.
- 4.11 Clearly this will have an effect on the scope for the Council to invest in service improvement in the coming years and on the scale of savings which will need to be achieved. Clearly the Council will need to look both at existing savings targets and at the opportunities presented by the trading and charging powers in the context of the Medium Term Financial Strategy going forward and it is suggested that the Executive Team be asked by the Cabinet to specifically include strategies in relation to such issues within the annual review of this strategy.
- 4.12 In relation to other funding streams three specific grants have been announced as shown below:

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Homelessness	40	40	40	40
Benefits Administration	632	608	593	Not announced
Concessionary Fares	0	206	211	216

- 4.13 The maintenance of the Homelessness Grant at the same level will provide some certainty in terms of the Council's ability to plan the development of preventive services. While disappointing the reduction in Benefits grand reflects national issues and the 2007/08 figure does reflect some gain from previous formula changes which are not entirely lost. Most significant is the grant for concessionary fares which is at the top end of the expected range. While at this stage there are no reliable data on which to estimate the cost of this change this does, to an extent, reduce the risk in this area.

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

- 5.1 This report is entirely concerned with financial matters

6. COMMENTS OF THE EXECUTIVE DIRECTOR OF REGULATORY SERVICES

- 6.1 There are no legal implications arising from this report.

7. COMMENTS OF THE HEAD OF PEOPLE AND ORGANISATIONAL DEVELOPMENT

7.1 There are no human resources implications arising from this report.

8. CONCLUSION

8.1 In general terms the settlement could be described as disappointing. However, the fact that three years' data is available does allow the Council to plan ahead to a greater degree than previously rather than simply reacting to the significant challenges that the settlement poses.

9. RECOMMENDATIONS

9.1 The Cabinet are recommended to

- a) Note the contents of this report and the potential implications for future years' budgets
- b) Request the Executive Team and Head of Finance to bring forward specific strategies for addressing the issues for future years within the revision of the Medium Term Financial Strategy.

10. CONSULTATION CARRIED OUT

10.1 Executive Team

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Background Papers	
Document	Place of Inspection
Local Government Finance Settlement	http://www.local.odpm.gov.uk/finance/0809/grant.htm

Local Government Finance Settlement – Addendum to Cabinet Report 12th December 2007

The DCLG announced on 11th December the allocations of the new Area Based Grant for the coming three years. This is a new grant which absorbs a large number of previous specific grants. It will be paid to the authority administering the Local Area Agreement in an area, in the case of Rossendale Lancashire County Council. The grant is not ring fenced to specific purposes. However, in order to allow authorities to better understand where the sums have come from the amounts at district level from the individual funding streams absorbed in the new grant have been announced.

What amounts end up with individual districts will ultimately be a matter decided through the processes which exist for managing the LAA.

Grant funding for the Crime and Disorder Reduction Partnership has already been absorbed in this arrangement and therefore cannot be separately identified at District level while the former Waste Performance and Efficiency Grant which was paid through the current LAA will now form part of Formula Grant.

Rossendale has been identified by DCLG as receiving a share of the new resources allocated in the Spending Review for Community Cohesion as follows:

	2008/09 £000	2009/10 £000	2010/11 £000
Community Cohesion Allocation within Area Based Grant	95	175	270

It would appear that this funding is intended as a continuation of the £35k of funding received in the current year in relation to the Preventing Violent Extremism initiative. Given the arrangements for payment of this sum do not guarantee that it will be received by the Council and the fact that it may be required to continue existing initiatives being carried out with the Police it would not be prudent at this stage to assume these resources are available as part of the budget debate.

George Graham
Executive Director of Resources
12th December 2007