



**Report to:** Cabinet

**Subject:** Local Government Finance Settlement 2006/2007 and 2007/2008

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1. **CONTENTS**

This report provides the key points of the provisional local government finance settlement for 2006/07, which was released on 5 December 2005. The report is broken down into the following sections:

- Summary
- Changes to the Local Government Finance System
- Formula Grant allocations
- Gedling's Position

2. **SUMMARY**

A 4-block option has been introduced for the allocation of funding. The introduction of the 4-block option moves away from notional spending and tax elements which were used within the previous grant distribution system. Therefore there are no longer any published figures for the level of assumed notional council tax (ANCT) or the Formula Spending Share figures. In addition figures have been released for 2007/2008 fulfilling government commitments to move to a 3 year allocations basis to aid local government in undertaking more accurate financial planning

The key features of the settlements for 2006/2007 and 2007/2008 are:

- For 2006/2007, a £2.7 billion increase in Council's total Government grant – a 4.5% increase in cash terms

- For 2007/2008, a £3.1 billion increase in Council's total Government grant – 5.0% increase in cash terms
- All authorities will receive reasonable increases in grant in cash terms for both years.

As in recent years floor damping arrangements for 2006/2007 and 2007/2008 which will ensure that all groups of authorities will receive a minimum grant increase.

### 3. **CHANGES TO THE LOCAL GOVERNMENT FINANCE SYSTEM**

#### **THREE-YEAR SETTLEMENTS**

As in the ODPM's consultation paper, it is the Government's intention to move to three-year settlements for local government in the next Spending Review Period. The announcement, therefore, covers the two remaining years of Spending Review 2004 (i.e. 2006/07 and 2007/08).

#### **FOUR BLOCK OPTION**

Ministers have decided to opt for the introduction of the Four Block Option. This, in effect, adds an additional layer of calculations on top of the existing Formula Spending Share (FSS) calculations in order 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 upon four blocks of cash

- relative needs amount;
- relative resources amount;
- central allocation; and
- floor damping.

The amount of cash nationally, as with the previous system, is the level of formula grant allocated via Spending Reviews. The size of the totals of the relative needs block and resources block is set by judgement.

Each authority's cash allocation is based on the total of its allocations across the four blocks. The calculation of authorities' block allocations is based on the FSS calculations, population, taxbase and the damping mechanism.

The Formula Grant allocation to authorities was previously based on an annual calculation of the FSS formulae. Authorities' FSS changes were due to either control total, data or methodology changes. The introduction of the four-block option has seen a fundamental change to the local government finance system, and in particular how authorities' Formula Grant is calculated. However, grant allocations will still be dependent on changes to the control total, data and methodology.

The data used in the 2007/08 provisional settlement calculations is the same as that for the 2006/07 settlement, except for forward projections for taxbase and population. For previous settlements, actual taxbase estimates have been used. For 2006/07 and 2007/08 projected figures have been used for these two key variables. It is not the intention to correct any variances between these projections and the actual figures (once known) through Amending Reports.

For the EPCS block Census 2001 data has replaced Census 1991 data used previously. The coefficients in the lower tier sub block have been adjusted to take into account Concessionary Fares. The fixed cost element has been updated from £300,000 to £325,000 per authority. The new data relating to day visitors has not been used.

#### **4 FORMULA GRANT ALLOCATIONS**

The announcement on 5 December 2005 provided details of the provisional Formula Grant entitlement for 2006/07 and 2007/08. Following the announcement of revised data and representations from local authorities concerning the provisional settlement, the final settlement is likely to be announced at the end of January or beginning of February. Local Authorities have until January 11th 2006 to reply to the provisional settlements. This means the figures can change.

#### **FORMULA GRANT PER HEAD**

The table below shows the increases in adjusted Formula Grant and per head figures for the national and regional picture and different types of authority.

	Formula Grant	
	% increase	£ per head
England (headline)	3.0%	491.07
England (excl. Fire/Police)	2.9%	374.46
London Boroughs	2.6%	488.08
Metropolitan Districts	2.4%	448.36
Shire Unitaries	2.8%	335.43
Shire Counties	3.0%	155.83
Shire Districts	4.8%	74.57

5. **GEDLING BOROUGH COUNCIL'S POSITION**

The introduction of floors for 2006/2007 and 2007/2008 shows that each shire district council will receive an increase in cash terms of 3.0% and 2.7% respectively.

As expected Gedling has done better than the minimum and has had increases in grant of 7.0% in 2006/2007 and 5.7% for 2007/2008.

In addition to the base increase, funding in respect of additional burdens has been included. The major area of additional responsibility being Concessionary Fares where it is estimated that some £621,000 of additional funding has been received.

With the additional burdens and the base increase Gedling's cash amount has increased from £7.015m in 2005/2006 to £8.215m for 2006/2007 and this will increase to £8.659m in 2007/2008. However, the floor increases for district councils has been funded by scaling back increases for those authorities above the floor. This has had the impact of reducing Gedling's grant amount of £0.317m in 2006/2007 and £0.157m in 2007/2008.

Figures are overall better than expected and this should allow for some revenue growth but consideration will also need to be given to funding any proposed capital programme where the Council can no longer rely on using capital receipts as a major funding source.

6. **RECOMMENDATION**

Members are recommended to note the report and consider if they wish to make a response to the settlement consultation.