

Local Government Finance Settlement 2008-09 to 2010-11

6 December 2007

LGA key messages

- The increases in net AEF of 3.7%, 2.8% and 2.6% in cash terms are equivalent to real terms increases of 0.9%, 0.1% and -0.1% over the three CSR years. This confirms the LGA analysis in October 2007.
- The contribution from Government is falling, with RSG going down from £4063m to £2909m. The real terms increases in grants are therefore being funded by business.
- In 2009-10 and 2010-11 the grant floors are set below inflation, so Councils that are on the grant floor will face real terms reductions in funding when demands and public expectations for services are rising.
- This is particularly hard on Shire Districts. Over a third of them are on the grant floor. The Government is telling District Councils that they will get a grant increase of 2% in total over the next three years, within a week of the Audit Commission proposing to increase audit fees by 33% over the same period.
- For Counties, Unitaries, Metropolitan Councils and London boroughs with responsibilities for the massively growing costs of social care, over £1850m is being redirected in order to pay for the minimum increase that the Government appreciates everyone needs. The LGA's view is that the cost of the floor should be funded from additional government resources.
- Migration figures are inadequate as the population figures do not include short term migrants. The LGA has called for an extra £250 million contingency fund to help councils maintain and provide services where there is accepted evidence that population statistics do not reflect the actual population in an area.
- In summary the settlement does not take account of the pressures facing local government, including adult social care and the rising costs of landfill and authorities will be faced with hard choices between service reductions and council tax increases.
- **1. Summary**

The provisional Local Government Finance Settlements for 2008-09 to 2010-11 was issued by DCLG on 6th December 2007. This briefing provides initial commentary and analysis. Further details can be found on the CLG website at <http://www.local.communities.gov.uk/0809/grant.htm>

The statement gives full details of formula grant and area based grant for the three settlement years

The key points are:

- Headline increase of 4% in Aggregate External Finance in 2008/09, 4.4% in 2009/10 and 4.3% in 2010/11 (this includes schools). This compares with an increase of 4.9% in AEF in 2007/08.
- Total increase in net AEF (excluding PFI special grant) of 3.7% in 2008/09, 2.8%

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in 2009/10 and 2.6% in 2010/11 compared with 3.7% in 2007/08.

- Damping arrangements as follows; floors of 2.0%, 1.75%, and 1.5% for authorities with education and social services responsibilities, 2.5% for police authorities for the three years; 1%, 0.5% and 0.5% for shire districts and 1%, 0.5% and 0.5% for fire and rescue authorities. These are paid for by scaling down the grant increases to authorities within the same class above the floor.
- Responses required by DCLG by 8th January 2008.

2. Formula Grant and Relative Need Formulae

Formula grant consists of four blocks:

- A **relative needs block**, worked out through Relative needs formulae (RNF) covering Children's Services, Adult Services, Police, Fire and Rescue, Highways, EPCS and Capital Financing. The formula for each service is based on a per client amount with top-ups to reflect local circumstances, including deprivation and area costs.
- A **relative resource amount**, to take account of different capacity to raise income from council tax. This is a negative amount.
- A **central allocation** amount, which is allocated so that all authorities delivering the same services receive the same per head of population.
- A **floor damping block**; to ensure that all authorities receive a minimum grant increase.

The following table gives a breakdown of formula grant for 2008/09 to 2010/11:

Table 1: Breakdown of formula grant

	2008/09 £m	2009/10 £m	2010/11 £m
Relative Needs Amount	17,047	17,519	17,972
Relative Resource Amount	-6,211	-6,384	-6,549
Central Allocation	12,517	12,863	13,196
Police Grant	4,136	4,253	4,374
Floor Damping	0	0	0
Formula Grant	27,490	28,254	28,996

3. Formula changes

The following formula changes have been made, following the consultation on formula grant distribution:

- Changes in the weights given to relative needs and relative resources in the calculation of formula grant; an increase of 2% in the size of the relative needs and relative resources blocks. This will tend to benefit authorities with higher relative needs and disadvantage those with property in higher banded council tax bands;
- no damping within the relative needs formulae for children's or younger adults;
- revision of the low income adjustment for social services for older people;
- updating the resource base used for the police and highway maintenance relative needs formula but not for the fire formula;
- updating the weights given to rates and labour costs within the area cost adjustment.

4. Government funding and council tax

Table 2 provides a summary of central government support for revenue expenditure

for 2008/09 to 2010/11 and 2007/08, and how that support has changed since 2007/08.

Table 2a Summary of government funding 2008/09

		2007/08 Settlement	2007/08 Adjusted	2008/09	Change Adjusted
	TOTAL AEF	66,608	67,700	70,408	4.0%
of which	Special Grants	44,382	44,573	46,322	3.9%
	NET AEF (CSR07)	22,226	23,120	24,081	4.2%
plus	Total post-CSR transfers	0	6	5	
equals	NET AEF (incl PFI)	22,226	23,126	24,086	4.2%
minus	PFI	563	563	677	
equals	NET AEF (excl PFI)	21,663	22,563	23,409	3.7%
minus	NNDR Distributable Amount	18,500	18,500	20,500	10.8%
equals	TOTAL RSG	3,163	4,063	2,909	-28.4%
minus	RSG for specified bodies	58	58	56	-3.4%
equals	TOTAL RSG FOR RECEIVING AUTHORITIES	3,105	4,005	2,854	-28.7%
add back	NNDR Distributable Amount	18,500	18,500	20,500	10.8%
plus	Police Grant (incl. Met. Special Payment)	4,028	4,025	4,136	2.8%
equals	FORMULA GRANT	25,633	26,530	27,490	3.6%

Table 2b: Summary of government funding 2009/10 (£m)

		2008/09 Settlement	2008/09 Adjusted	2009/10	Change Adjusted
	TOTAL AEF	70,408	70,369	73,484	4.4%
of which	Special Grants	46,322	46,299	48,580	4.9%
	NET AEF (CSR07)	24,081	24,086	24,920	3.5%
plus	Total post-CSR transfers	5	-16	-16	
equals	NET AEF	24,086	24,071	24,904	3.5%
minus	PFI	677	677	853	
equals	NET AEF (excl PFI)	23,409	23,394	24,051	2.8%
minus	RSG for specified bodies	56	56	50	-10.7%
equals	TOTAL RSG % NNDR FOR RECEIVING AUTHORITIES	23,354	23,338	24,001	2.8%
plus	Police Grant (incl. Met. Special Payment)	4,136	4,136	4,253	2.8%
equals	FORMULA GRANT	27,490	27,474	28,254	2.8%

Table 2c: Summary of government funding 2010/11 (£m)

		2009/10 Settlement	2009/10 Adjusted	2010/11	Change Adjusted
	TOTAL AEF	73,484	73,479	76,671	4.3%
of which	Special Grants	48,580	48,581	50,930	4.8%
	NET AEF (CSR07)	24,920	24,904	25,763	3.4%
plus	Total post-CSR transfers	16	6	22	
equals	NET AEF	24,904	24,898	25,741	3.4%
minus	PFI	853	853	1,069	
equals	NET AEF (excl PFI)	24,051	24,045	24,672	2.6%
minus	RSG for specified bodies	50	50	50	0.0%
equals	TOTAL RSG & NNDR FOR RECEIVING AUTHORITIES	24,001	23,995	24,622	2.6%
plus	Police Grant (incl. Met. Special Payment)	4,253	4,253	4,374	2.8%
equals	FORMULA GRANT	28,254	28,248	28,996	2.6%

The **national non-domestic rates** (NNDR) poundage (the multiplier) for England for 2008/09 will be 46.2p, compared to 44.4p in 2007/08. The NNDR distributable

amount for 2008/09 is going up to £20.5bn, an increase of 10.8%. This reflects the extension of business rates to empty properties.

Average Band D council tax in 2007/08 was £1321. Actual council taxes in 08/09 and subsequent years will depend upon decisions by authorities, however the government has made it clear that they expect council tax increases to increase by substantially less than 5% overall.

4. Specific grants

The government has confirmed details of most specific grants. Totals are summarised in table 3 below.

Table 3: Specific grants (£m)

	2007/08	2007/08 adjusted	2008/09	2007/08 adjusted to 2008/09 Change	2009-10	2010-11
Children's and education	33,455.8	33,327.2	34,904.8	4.7%	36,643.6	38,832.6
Adults PSS	759.3	113.3	115.8	2.3%	244.8	313.5
Fire	0.6	0.6	0.0	-100%	-	-
Police	4,656.1	5,331.8	5,480.6	2.8%	5,645.7	5,802.1
EPCS	767.4	913.3	835.7	-8.5%	920.2	1,004.2
Capital	595.0	563.0	677	20.2%	853.0	1,069.0
Area Based Grant	1,966.5	2,938.4	2,993.1	1.9%	4,829.2*	4,742.1
Unallocated	1930.2	1948.7	1992.0	2.2%	296.1*	235.1
TOTAL	44,130.8	45,136.3	46,999.0	4.1%	49,432.6	51,998.5

*Includes planned transfer of Supporting People grant into ABG

Area Based Grant

The CSR07 announced details of a new Area Based Grant, comprising a number of former specific and special grants. Today's settlement has provided details of the total sum of Area Based Grant available over CSR07, but we are still awaiting confirmation of how this breaks down across the former specific and special grants. Guidance on Area Based Grant was recently published in the Operational Guidance. We understand that CLG will shortly be producing a guidance note on Area Based Grant aimed at finance offers.

Schools

Provisional Dedicated Schools Grant and other school-based allocations for 2008/09 to 2010/11 were announced on 8th November. Details can be found at <http://www.teachernet.gov.uk/management/schoolfunding/schoolfunding2008to11/>

DCSF stress that these figures are based on estimates only; they are used to set the per pupil guaranteed unit of funding. In setting school budgets for 2008/09 and subsequent years, local authorities should plan on estimates which are based on local estimates of pupil numbers. Final DSG figures are expected to be announced in May/June 2008, 2009 and 2010 respectively.

Adult social care

As previously announced, grants for access and systems and delayed discharges are being rolled into formula grant. There is a new ring-fenced grant of £82m/£192m/237m for social care reform.

Supporting People

Supporting People allocations for 2008/09, 2009/10 and 2010/11 have also been announced. Total Supporting People grant will be £1.686bn in 2008/09, £1.666bn in 2009/10 and £1.636bn in 2010/11, compared with £1.696m in 2007/08.

This will be included in area based grant for all authorities from 2009/10. For some pilot authorities it will be included for 2008/09.

Concessionary Fares

The Department for Transport have announced the distribution method that they will use to distribute the Special Grant to support the extension of free travel for the over 60s and some disabled people from April 2008. The factors taken into account are eligible population, bus patronage, overnight visitors and retail floor space. Full details can be found at

<http://www.dft.gov.uk/pgr/regional/buses/concessionary/nbcfaddtngants/>

Working Neighbourhoods Fund

The Working Neighbourhoods Fund will replace the Neighbourhood Renewal Fund. Funding will fall from £525m in 2007-08 to £450m in 2008-09, £500m in 2009-10 and £500m in 2010-11, with an additional £50m reward grant available in 2010-11. WNF will be distributed through Area Based Grant and will be target worklessness in the most deprived areas. 66 authorities will receive WNF for 3 years; the 21 authorities that currently receive NRF but do not qualify for WNF will get two years of transitional funding.

Police

An APA press release will be available at <http://www.apa.police.uk>

6. Damping Arrangements

Damping arrangements will continue to operate so that every authority will get at least the grant floor for that class of authority. This will be paid for by scaling back the grant increase above the floor for other authorities in that class.

The table below summarises the position compared with 2007/08.

Table 4: Floors and scaling

	Education/ Social Services	Shire Districts	Police	Fire
2007-08				
Floor	2.70%	2.70%	3.60%	2.70%
Number	60	64	21	8
Scaling down	-68.84%	-38.41%	-97.92%	-91.11%
Number	90	174	17	23
2008/09				
Floor	2.00%	1.00%	2.50%	1.00%
Number	58	94	16	10
Scaling down	-64.19%	-72.61%	-87.97%	-63.88%
Number	91	144	22	21
2009-10				
Floor	1.75%	0.50%	2.50%	0.50%
Number	51	93	16	9
Scaling down	-72.54%	-62.45%	-87.35%	-62.45%
Number	98	145	22	22
2010-11				
Floor	1.50%	0.50%	2.50%	0.50%
Number	48	76	16	8
Scaling down	-71.32%	-57.89%	-86.25%	-59.14%
Number	101	162	22	23

The base used for 2007/08 has been adjusted so that these increases are on a like for like basis. This includes adjustments for grants which have been rolled into formula grant.

7. Changes in formula grant by class of authority and by region

The table overleaf shows changes in formula grant (revenue support grant plus non-domestic rates) by type of authority and by region.

Table 5: Changes in formula grant over 2007/08 as adjusted

Local Authority type	2008/09 (%)	2009/10 (%)	2010/11 (%)
London area	2.4%	2.1%	2.0%
Metropolitan areas	3.8%	2.9%	2.6%
Shire areas	4.1%	3.2%	3.0%
Isles of Scilly	12.5%	3.1%	2.8%
Inner London boroughs incl. City	2.0%	1.8%	1.6%
Outer London boroughs	2.9%	2.3%	2.1%
London boroughs	2.4%	2.0%	1.8%
GLA - all functions	2.3%	2.3%	2.3%
Metropolitan districts	4.1%	2.9%	2.5%
Metropolitan fire authorities	2.3%	1.3%	1.3%
Metropolitan police authorities	3.2%	3.1%	3.1%
Shire unitaries with fire	6.3%	4.2%	3.8%
Shire unitaries without fire	5.1%	3.4%	3.0%
Shire counties with fire	5.7%	4.1%	3.8%
Shire counties without fire	5.6%	4.2%	4.1%
Shire districts	1.7%	1.4%	1.3%
Combined fire authorities	3.2%	2.0%	2.0%
Shire police authorities	2.7%	2.7%	2.8%
FLOOR GROUPS			
Education/PSS Authorities	4.3%	3.1%	2.8%
Police Authorities	2.8%	2.8%	2.8%
Fire Authorities	2.4%	1.4%	1.4%
Shire Districts	1.7%	1.4%	1.3%
GO REGIONAL SUMMARY			
South West GOR	4.3%	3.3%	3.2%
South East GOR	2.5%	2.2%	2.2%
London GOR	2.4%	2.1%	2.0%
Eastern GOR	3.6%	3.0%	3.0%
East Midlands GOR	5.5%	3.9%	3.5%
West Midlands GOR	4.4%	3.3%	3.0%
Yorkshire and Humber GOR	4.4%	3.2%	2.9%
North East GOR	3.4%	2.6%	2.3%
North West GOR	4.0%	3.0%	2.7%

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