



AGENDA ITEM: 5

OVERVIEW & SCRUTINY BOARD

3 JANUARY 2006

PROVISIONAL REVENUE SUPPORT GRANT SETTLEMENT 2006/2007 & 2007/2008

PAUL SLOCOMBE: DIRECTOR OF RESOURCES

PURPOSE OF THE REPORT

1. To provide an outline of the proposals set out in the 2006/2007 and 2007/2008 Revenue Support Grant Consultation paper.

BACKGROUND AND EXTERNAL CONSULTATION

2. Central Government released details of the proposed Revenue Support Grant settlements for 2006/2007 and 2007/2008 on the 5th December 2005.
3. The main features of the paper are set out below: -

National Position

4. To assist Local Government in medium term financial planning, the proposed level of Central Government funding support proposed to be made available to individual authorities over the next two years has been set out. Local Authority specific grant allocations, other than those performance or data-driven, are also to be issued within the next week.
5. This approach is to be developed further during 2006/2007 to provide three-year indicative allocations of Central Government support to individual authorities. Local Authorities are being encouraged to give indicative Council Tax figures for future years.
6. The system for allocating grant has been significantly changed. Formula Spending Shares (FSS) no longer exist. It has been made clear, within the Consultation Papers that the settlements are to be seen as a means to distribute Government Grant rather than providing indicative service allocations.
7. The new system of Formula Grant consists of four blocks: -

- a. A **relative needs block**. This is based on a complex Relative Needs Formulae (RNF). The RNF's are the equivalent to Formula Spending Shares in the old system and are split into blocks 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. This element distributes £14.8 Billion (71%) of the total national Formula Grant in 2006/2007
- b. A **relative resource amount**, to take account of different capacity to raise income from council tax. This is a negative amount and distributes -£5.1 Billion (-25%) of the total national Formula Grant in 2006/2007
- c. A **central allocation** amount, which is allocated on an amount per head of population basis. This element distributes £11.2 Billion (54%) of the total national Formula Grant in 2006/2007
- d. A **floor damping block**; to ensure that all authorities receive a minimum grant increase. This is self-financing and is similar to the previous "floors and ceilings" approach and acts as a safety net to ensure no authority receives less than a set minimum increase in Central Government support.

8. The following table summarises the national allocation of Formula Grant for both 2006/2007 and 2007/2008: -

Formula Grant	2006/2007 Amount £` Billion	2006/2007 %	2007/2008 Amount £` Billion	2007/2008 %
Relative Needs	14.817	71.03	15.337	71.03
Relative resources	-5.129	-24.59	-5.309	-24.59
Central allocation	11.172	53.56	11.564	53.56
Floor Damping	0.000	0.00	0.000	0.00
Total	20.860	100.00	21.592	100.00

9. Headline national figures for 2006/2007 include: -

- a. 3.1% increase in Formula Grant (previously Revenue Support Grant)
- b. 4.5% increase in Aggregate External finance (Formula Grant and Specific Grants)

10. Headline national figures for 2007/2008 include

- a. 3.8% increase in Formula Grant
- b. 5.0% increase in Aggregate External finance (Revenue Support Grant and specific Grants)

11. There are a number of adjustments in respect of transfers between Formula Grant and specific grants, particularly in respect of Social Care and capital funding.

12. Damping arrangements have been put in place. Authorities providing Social Services and Education Services will receive a minimum increase (“the floor”) in Formula Grant of 2.0% and 2.7% in 2006/2007 and 2007/2008 respectively. The arrangements are to be self-financing by reducing the entitlements to those authorities receiving an increase above the “floor”. In 2006/2007 approximately 70 authorities are at or below the “floor” with 80 authorities being above.

Middlesbrough Position

13. Middlesbrough under the revised approach is entitled to a Formula Grant of £71.817 million in 2006/2007. This has been reduced by £0.618 million to £71.199 million under the damping arrangements and represents a 2.1% increase over 2005/2006 on a directly comparable basis.
14. Middlesbrough’s Formula Grant entitlement for 2006/2007 and 2007/2008 is summarised in the following table: -

Grant	2006/2007 Amount £` Million	2007/2008 Amount £` Million
Relative Needs Amount (RNA)	53.727	56.495
Relative Resource Amount (RRA)	-4.443	-5.239
Central Allocation (CA)	22.533	22.872
Initial Grant Entitlement	71.817	74.128
Less damping arrangements	-0.618	-1.280
Formula Grant	71.199	72.848

15. The increase in Formula Grant on a directly comparable basis represents is 2.1% in 2006/2007 and 3.5% in 2007/2008.
16. Under the revised Formula grant Middlesbrough Council is a net contributor to the damping arrangements of £0.618 million and £1.280 million in 2005/2006 and 2006/2007 respectively.
17. During 2004 the Council was successful in winning its `population case` regarding the assumptions made by the Office of National Statistics. We received an additional £2 million backdated Revenue support Grant in the 2003/2004 RSG Amendment Report and an ongoing £2 million increase from 2005/2006. Amended RSG reports for 2004/2005 and 2005/2006 have now been issued. An additional £2.3 million and £0.3 million backdated Revenue Support Grant has been awarded in 2004/2005 and 2005/2006 respectively. This will be received next year and is approximately £600,000 more than that previously estimated.
18. Revised population assumptions have been included in the future settlements, however, which assume a 1,300 net annual loss in population over the period under review.

19. There are a number of changes within the Settlement which impact on the assumptions within the existing Medium Term Financial Plan, as summarised in the following table: -

Service	Amount 2006/2007 £`Million	Amount 2007/2008 £`Million	Details
Social Services - Older People - Younger Adults.	0.424 0.143)) +0.672	Transfer of preserved rights and residential allowances specific grants to Formula Grant
Concessionary Fares	-0.054	-0.054	
Debt Charges	-0.241	-1.161	Revised allocation
Education	-0.234	-0.327	New Specific Grant
Flood Defence	0.000	0.000	Low increase for LEA activities, increased Savings Target
			Reduction in LA expenditure
	0.038	-0.870	

20. Included within the settlement were a number of additional Central government proposals that may help to mitigate future financial impacts on Local authorities. The main issues, which will be kept under review, are detailed below: -
- a. funding the net cost of new burdens and strengthening the appropriate support mechanisms;
 - b. cost pressures arising from the temporary reinstatement of the 85 year rule in the local government pension scheme will not fall on taxpayers;
 - c. an agreement to work together to explore ways of managing pressures on pay, waste and adult social care;
 - d. re-affirmed commitment that costs from new licensing act will be fully met by fees within the national fee regime. The DCA and the LGA will work with the independent fees review panel to agree the process for verifying costs.

Overview and Comment

21. The approach and methodology are significantly different from that applied in recent years. Whilst the impact, over the medium term, is currently being assessed, initial views suggest that this national settlement is not as generous as those reached in recent years.
22. Significant resources have not been made available within the Formula Grant for Social Services (Social Care and Children Families and Learning). The residual

Education Function has received a particularly poor increase in funding given the level of change being imposed by Direct Grant to Schools.

23. Further work and analysis is needed, which is now ongoing. A full report will be issued to the next meeting of Executive.

Representation to Central government

24. Local Authorities, wishing to make a response to the consultation paper are required to do so by the 11th January 2005. It is proposed to make representations on the following factors:-
- a. supporting the retention of a minimum increase (floor), but outlining concern that it has been set to low for those authorities providing Education and Social Services and should be increased as a minimum to 3%;
 - b. consideration should be given to maintaining a maximum increase `ceiling`;
 - c. raising concerns as to the net population assumptions;
 - d. outlining the impact of the funding allocation on the residual Education service following the introduction of Direct Grant to Schools; and
 - e. requesting additional funding for Social Services (Children and Adults) demand led pressures.

OPTION APPRAISAL/RISK ASSESSMENT

25. Not applicable to this report.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

26. The settlement for Middlesbrough is below that predicted in our Medium Term Financial Plan, however it is not felt necessary to significantly change our Budget Strategy. The variance is approximately £500,000.
27. Overall the impact on the current projected figures is as follows: -

	2006/2007 £` Million	2007/2008 £` Million	2008/2009 £` Million	2009/2010 £` Million
Gap as per MTFP	1.762	2.787	2.438	2.445
Revised Gap	2.274	2.833	2.880	3.371
Increase	0.512	0.046	0.442	0.926

RECOMMENDATIONS

28. Members are asked to note and consider the contents of the report

REASONS

29 To ensure that Middlesbrough Council maximises the resources available under the 2006/2007 and 2007/2008 Revenue Support Grant settlement.

BACKGROUND PAPERS

The following papers were used in the preparation of the report: -

- Medium Term financial plan 2006/2007 to 2009/2010
- Revenue Support Grant Report 2004/2005
- Revenue support grant consultation papers 2006/2007 and 2007/2008

AUTHOR: Paul Slocombe, Director Of Resources
Tel No: (01642) 729032

Address: Strategic Resources, PO Box 99, Middlesbrough House, 50 Corporation Road, Middlesbrough, TS1 2QQ