



AGENDA ITEM: 4

## OVERVIEW & SCRUTINY BOARD

DATE: 9 JANUARY 2007

### PROVISIONAL REVENUE SUPPORT GRANT SETTLEMENT 2007/2008

#### PAUL SLOCOMBE: DIRECTOR OF RESOURCES

#### PURPOSE OF THE REPORT

1. To provide Overview & Scrutiny Board with an outline of the proposals set out in the 2007/2008 Revenue Support Grant Consultation paper.

#### BACKGROUND AND EXTERNAL CONSULTATION

2. Central Government released details of the proposed Revenue Support Grant settlements for 2007/2008 on the 28<sup>th</sup> November 2006. CMT will recall that provisional figures for 2007/2008 were released with the 2006/2007 settlement in January 2006. There have been no significant changes from that indicated earlier in the year.
3. The main features of the paper are set out below: -

#### National Position

4. Last year, in order 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 was set out. This approach is intended to be developed whereby local authorities are provided with three-year indicative allocations of Central Government support. No future years data is included within the consultation paper.
5. The system for allocating changed in 2006/2007. Formula Spending Shares (FSS) no longer exist. The settlements are to be seen as a means to distribute Government Grant rather than providing indicative service allocations.
6. The 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.
7. The following table summarises the national allocation of Formula Grant for 2007/2008: -

Formula Grant	2007/2008 Amount £`Billion	2007/2008 %
Relative Needs	15.337	70.99
Relative resources	-5.308	-24.57
Central allocation	11.576	53.58
Floor Damping	0.000	0.00
<b>Total</b>	<b>21.605</b>	<b>100.00</b>

8. Headline national figures for 2007/2008 include
  - a. 3.7% increase in Formula Grant
  - b. 4.9% increase in Aggregate External finance (Revenue Support Grant and specific Grants)
9. 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.
10. 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 2.7% in 2007/2008. The arrangements are to be self-financing by reducing the entitlements to those authorities receiving an increase above the “floor”. In 2007/2008 approximately 60 authorities are at or below the “floor” with 90 authorities being above.

### **Middlesbrough Position**

11. Middlesbrough under the revised approach is entitled to a Formula Grant of £74.160 million in 2007/2008. This has been reduced by £0.932 million to £73.227

million under the damping arrangements and represents a 2.1% increase over 2005/2006 on a directly comparable basis.

12. 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)		53.725	56.507
Relative Resource Amount (RRA)		-4.443	-5.238
Central Allocation (CA)		22.557	22.890
Initial Grant Entitlement		71.839	74.160
Less damping arrangements		-0.501	-0.932
Formula Grant		71.338	73.227

13. The increase in Formula Grant on a directly comparable basis represents is 3.3% in 2007/2008.
14. Under the revised Formula grant Middlesbrough Council is a net contributor to the damping arrangements of £0.932 million in 2007/2008.

### Overview and Comment

15. The approach and methodology are the same as that applied in 2006/2007.
16. No additional resources have been provided above that identified in January 2006. 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.
17. 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

18. Local Authorities, wishing to make a response to the consultation paper are required to do so by the 5th January 2006. It is proposed to make representations on the following factors:-
- 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%;
  - raising concerns as to the net population assumptions;
  - outlining the impact of the funding allocation on the residual Education service following the introduction of Direct Grant to Schools; and

- d. requesting additional funding for Social Services (Children and Adults) demand led pressures.
- e. request that consideration is given to the impact of equal pay
- f. assumptions made in respect of our Council Tax Base
- g. raising concerns as to the timing and release of three year planning figures for Local Government.

#### **OPTION APPRAISAL/RISK ASSESSMENT**

19. Not applicable to this report.

#### **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

20. The settlement for Middlesbrough is in line with below that predicted in our Medium Term Financial Plan,

#### **RECOMMENDATIONS**

21. Overview & Scrutiny Board are asked to
  - a. note and consider the contents of the report.

#### **REASONS**

22. To ensure that Middlesbrough Council maximises the resources available under the 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 2006/2007
- Revenue support grant consultation papers 2007/2008

**AUTHOR:** Paul Slocombe, Director Of Resources

**TEL NO:** : (01642) 729032

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*Address:*

*Website:* <http://www.middlesbrough.gov.uk>