



Report of the Director of Resources

Executive Board

Date: 19th December 2007

Subject: **PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2008/09
TO 2010/11**

Electoral Wards Affected: All

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Yes

Not Eligible for Call In

(Details contained in the report)

EXECUTIVE SUMMARY

1. This report gives details of the provisional Local Government Revenue Support Grant Settlement for 2008/09, 2009/10 and 2010/11 which was announced on 6th December 2007.
2. This is the first three-year settlement (following a two-year settlement for 2006/07 and 2007/08), and marks the Government's move to align local government funding announcements with the Comprehensive Spending Review cycle.
3. The national increases in net Aggregate Exchequer Funding (AEF) are 3.7% for 2008/09, 2.8% for 2009/10 and 2.6% for 2010/11. The percentage increases in Formula Grant for Leeds are 2.8% for 2008/09, 2.1% for 2009/10 and 1.8% for 2010/11, equivalent to cash increases of £7.9m, £6.3m and £5.4m respectively.

1.0 Purpose of This Report

- 1.1 To inform members of Executive Board of the details of the provisional Local Government Finance Settlement for 2008/09 to 2010/11.

2.0 Background Information

- 2.1 In December 2005, the Government announced the provisional Local Government Finance Settlement for 2006/07 and 2007/08. This was the first time that Government had announced settlements for more than one year and was part of a move towards providing more stability and predictability for local government.
- 2.2 The December 2005 announcement also included major changes to funding arrangements for 2006/07 onwards including:
 - a new dedicated schools grant (DSG) which replaced the schools formula spending share; and
 - the introduction of a four–block mechanism for distributing “Formula Grant” (Revenue Support Grant & National Non-Domestic Rates) based upon relative needs, relative resources, a central allocation (basic amount) and floor damping which makes comparisons of need between years and between authorities much more difficult.
- 2.3 The two-year settlement was the first step towards three-year settlements which the Government has now introduced to align local government funding with the three-year cycle of Comprehensive Spending Reviews.

3.0 Main Issues

- 3.1 In making his announcement on 6th December, John Healey, the Minister for Local Government, confirmed that every authority will receive an increase in formula grant for each year of the settlement, However, he went on to acknowledge that it is “*a tight settlement*” but one that in his view is “*fair and affordable*” . He also said that the settlement “*delivers the certainty, flexibility, equity and stability that local government wanted. We know councils are capable of innovating, managing change and improving efficiency without a disproportionate impact upon council tax payers. The challenge and onus is now on councils to demonstrate the leadership to do just this.*”

3.2 The national totals of Aggregate External Finance (AEF) for the three years of the settlement are set out below:

	2007/08 Adjusted £M	2008/09 Provisional £M	Variance %	2008/09 Adjusted [†] £M	2009/10 Provisional £M	Variance (from 08/09 Adjusted) %	2009/10 Adjusted [†] £M	2010/11 Provisional £M	Variance (from 09/10 Adjusted) %	Overall 3-Year Increase %
AGGREGATE EXTERNAL FINANCE										
Revenue Support Grant (RSG)	4,063	2,909	-28.4%							
Business Rates	18,500	20,500	10.8%							
Sub-total *	22,563	23,409	3.7%	23,338	24,001	2.8%	23,995	24,622	2.6%	9.1%
Police Grant	4,025	4,136	2.8%	4,136	4,253	2.8%	4,253	4,374	2.8%	8.7%
Total Formula Grant	26,588	27,545	3.6%	27,474	28,254	2.8%	28,248	28,996	2.6%	9.1%
RSG to specified bodies	58	56	-3.4%	56	50	-10.7%	50	50	0.0%	-13.8%
Dedicated Schools Grant (DSG)	28,032	29,138	3.9%	29,138	30,111	3.3%	30,111	31,356	4.1%	11.9%
Other Special & Specific Grants and adjustments	13,022	13,669	5.0%	13,701	15,070	10.0%	15,071	16,269	8.0%	24.9%
TOTAL AEF	67,700	70,408	4.0%	70,369	73,484	4.4%	73,479	76,671	4.3%	13.3%

* Split between RSG and NNDR not available for 2009/10 and 2010/11

† 2008/09 & 2009/10 adjusted to reflect changing responsibilities between years

3.3 The amounts of formula grant for Leeds over the settlement period are shown below. The table shows Leeds' formula grant for each year of the settlement split between the four grant blocks together with the total increases from year to year in cash and percentage terms.

	2007/08 Actual £M	2008/09 Provisional £M	2009/10 Provisional £M	2010/11 Provisional £M
Relative Needs Amount (RNF)	189.081	198.798	202.033	204.909
Relative Resources Amount	-40.184	-41.759	-44.418	-47.051
Central Allocation	123.665	138.980	143.489	147.828
Floor Damping	-1.171	-4.002	-3.028	-2.293
Actual/Provisional Formula Grant Total	271.391	292.017	298.076	303.393
Adjusted Grant (for comparison with the following year only)	284.103	291.822	298.001	N/A
Cash Increase (compared to Adjusted Grant)	N/A	7.915	6.253	5.392
Percentage Increase (compared to Adjusted Grant)	N/A	2.8%	2.1%	1.8%

3.4 Comparative figures showing the percentage increases for the Core Cities and the West Yorkshire Districts are shown in the table below:

	% Increase in Formula Grant between 2007/08 and 2008/09	% Increase in Formula Grant between 2008/09 and 2009/10	% Increase in Formula Grant between 2009/10 and 2010/11
LEEDS	2.8%	2.1%	1.8%
Birmingham	4.9%	3.3%	2.7%
Bristol	4.6%	3.0%	2.5%
Liverpool	2.0%	1.8%	1.5%
Manchester	3.8%	2.5%	1.9%
Newcastle	2.0%	1.8%	1.5%
Nottingham	6.6%	3.9%	3.1%
Sheffield	2.6%	2.1%	1.8%
Bradford	5.6%	3.7%	3.2%
Calderdale	4.5%	3.2%	2.8%
Kirklees	6.1%	4.0%	3.5%
Wakefield	5.3%	3.5%	3.0%
West Yorkshire Police	3.4%	3.4%	3.3%
West Yorkshire Fire	3.2%	2.0%	2.0%
Average Core City	3.7%	2.5%	2.1%
Average West Yorkshire District	4.6%	3.1%	2.7%
Average Metropolitan District	4.1%	2.9%	2.6%
Average England	3.6%	2.8%	2.6%

As can be seen, although there are significant variations between individual authorities, Leeds' percentage increases are substantially below the national average and the average of the Core Cities, the West Yorkshire Districts and the Metropolitan Districts for each of the three years of the settlement.

3.5 Although the basic methodology for calculating the four formula grant blocks has not changed the DCLG have made a number of adjustments. The two most significant are:

- Increases of 2% in the weightings given to the Relative Needs Amount (RNF) and the Relative Resources block in the calculation. The full implications of this change are still being assessed, but it appears to further disadvantage authorities like Leeds with low relative needs and a larger proportion of properties in higher council tax bands.

- Withdrawal of the damping factors within the children's and younger adult RNFs (the so-called "double-damping" factor"). In 2007/08 Leeds benefited from the children's damping but lost out on younger adults, so the overall effect is expected to be broadly neutral.

3.6 As signalled in the Comprehensive Spending Review, several specific grants have been transferred into formula grant this year, and many more have been transferred into the new non-ring-fenced Area Based Grant (ABG). The most significant of these is the successor to the Neighbourhood Renewal Fund, the new Working Neighbourhoods Fund (WNF). Leeds is one of 21 authorities that currently receive RNF (£14.9m in 2007/08) but will not qualify for WNF. However, Leeds will receive some transitional funding: £8.96m in 2008/09 and £3.59m in 2009/10, reducing to zero for 2010/11.

3.7 In his speech, Mr Healey also addressed the issue of council budgets and council tax levels. He confirmed that the Government expects the average council tax increase in England to be "*substantially below 5%*" for 2008/09 and that "*we will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases.*"

3.8 As in previous years, the 6th December announcement will be followed by a consultation period with final settlement details being confirmed in January 2008. A response will be submitted on behalf of the Council once the full implications of the announcement have been assessed. However, it is unlikely that the Government will make any significant changes to the provisional figures.

4.0 Implications for Council Policy and Governance

4.1 The settlement will have implications for the 2008/09 budget and the level of council tax for that year which will be the subject of separate reports to Executive Board. In the longer term, it will have implications for future budget decisions and for the development of the Council's Financial Plan.

5.0 Legal and Resource Implications

5.1 The settlement will have a direct impact upon the Council's financial resources for the three years 2008/09 to 2010/11, and will be a key factor in decisions on the Council's budget and levels of council tax as described in 4.1, above.

6.0 Recommendations

6.1 Members of Executive Board are requested to note the contents of this report.

Background Papers:

The Draft Local Government Finance Report 2008/09 and supporting papers, published by the Department for Communities and Local Government, 6th December, 2007.