



Report of the Director of Corporate Services

Executive Board

Date: 17th February 2006

Subject: Final Local Government Finance Settlement 2006/07 and 2007/08

Electoral Wards Affected:

Specific Implications For:

Ethnic minorities

Women

Disabled people

Narrowing the Gap

Eligible for Call In

Yes

Not Eligible for Call In

(Details contained in the report)

1.0 INTRODUCTION

- 1.1 This report provides information about the Secretary of State's final Local Authority Revenue Finance Settlement for 2006/07 and 2007/08 which was announced on 31st January 2006. The provisional figures were reported to Executive Board on 14th December. As part of the move towards three year settlements, figures are also supplied for the following year, 2007/08, although for technical reasons they remain provisional until this time next year.
- 1.2 Other new features to the system of local government finance remain as proposed in the provisional settlement, as follows:
 - 1.2.1 The Dedicated Schools Grant will replace Schools Formula Spending Share (FSS) and be earmarked for schools, although local authorities will still distribute it between schools.
 - 1.2.2 Secondly, FSS for other services is replaced with Relative Needs Formulae (RNF). However, whereas the figures for FSS could be regarded as notional spending amounts, that is no longer the case. That has been done by the Government to move away from the situation where comparisons are done and FSS amounts used as spending benchmarks. Instead RNF will be solely a figure used in the calculation of formula grant. Comparisons of RNF between years in any meaningful way are no longer possible.
 - 1.2.3 Thirdly, the Government has done away with the notional figure of Assumed National Council Tax (ANCT) which was again often used as a benchmark for actual council tax.
 - 1.2.4 Fourthly, Formula Grant (Revenue Support Grant and National Non-domestic Rates, but excluding Police Grant – see table in paragraph 2.1) will be distributed in four blocks, a needs block, a resources block, a central allocation (basic amount) and a damping block.
- 1.3 Attached at the Appendix are letters sent in response to the Government's consultation about the provisional settlement.

2.0 COMPARISON WITH PROVISIONAL SETTLEMENT - NATIONAL POSITION

2.1 The table below sets out the national position for the 2006/07 and 2007/08 settlement. As can be seen, the only changes to the figures are small additional amounts in both years for Revenue Support Grant and some additional Police Grant in 2006/07.

	2006/07 Provis- ional £M	2006/07 Final £M	Var- iance £M	2007/08 Provis- ional £M	2007/08 Updated £M	Var- iance £M
AGGREGATE EXTERNAL FINANCE						
Revenue Support Grant (RSG)	3,360	3,378	18	4,092	4,105	13
Business Rates	17,500	17,500	0	17,500	17,500	0
Sub-total (see 1.2.4)	20,860	20,878	18	21,592	21,605	13
Police Grant	3,931	3,936	5	4,028	4,028	0
Total Formula Grant	24,791	24,814	23	25,620	25,633	13
RSG to specified bodies	65	65	0	58	58	0
Dedicated Schools Grant (DSG)	26,576	26,576	0	28,171	28,171	0
Other Special & Specific Grants	10,671	10,671	0	11,234	11,234	0
TOTAL AEF	62,103	62,127	23	65,083	65,096	13

2.2 The Government have changed the way in which they have calculated floors, mainly in respect of additional capital financing costs.

2.3 In other areas where Leeds City Council and others had made representations there is no change. Population and tax base projections have remained the same and there is no apparent change to the way the funding for the extended concessionary fares scheme has been distributed nor to the way the DSG deduction from Formula Grant has been calculated.

3.0 COMPARISON WITH PROVISIONAL SETTLEMENT – LEEDS' POSITION

3.1 The table below sets out the final settlement compared with the provisional position for Leeds. As can be seen, Leeds has an additional £0.5m grant for 2006/07 and an additional £1.5m for 2007/08. The main reason for the additional grant in both years is an adjustment to the calculation of the floor, mainly in respect of additional capital financing costs (see 2.2 above).

	2006/07 Provis- ional £M	2006/07 Final £M	Var- iance £M	2007/08 Provis- ional £M	2007/08 Updated £M	Var- iance £M
Relative Needs Amount	185.3	185.0	- 0.3	189.4	189.1	- 0.3
Relative Resource Amount	-38.6	-38.6	0.0	-40.2	-40.2	0.0
Central Allocation	120.4	120.5	0.1	123.6	123.7	0.1
Floor Damping	-3.0	-2.4	0.6	-2.9	-1.2	1.7
TOTAL	264.0	264.5	0.5	269.9	271.4	1.5

4.0 COMPARISON WITH PROVISIONAL SETTLEMENT – OTHER AUTHORITIES

4.1 The table below shows movements between the provisional and final settlements for the other Core Cities and West Yorkshire districts.

	Increase in Formula Grant between Provisional and Final 2006/07 £m	Increase in Formula Grant between Provisional and Updated 2007/08 £m
LEEDS	0.5	1.5
Birmingham	0.8	0.7
Bristol	0.3	0.1
Liverpool	0.2	0.5
Manchester	1.0	2.3
Newcastle	0.2	0.7
Nottingham	0.3	0.2
Sheffield	0.4	1.3
Bradford	0.2	0.2
Calderdale	-0.1	0.1
Kirklees	0.0	-0.1
Wakefield	0.1	0.2

5.0 COMPARISONS YEAR ON YEAR - NATIONAL POSITION

5.1 The table below sets out the national position for the 2006/07 and 2007/08 settlement.

5.2

	2005/06 Adjusted £M	2006/07 Final £M	Variance %	2007/08 Updated £M	Variance %
AGGREGATE EXTERNAL FINANCE					
Revenue Support Grant (RSG)	2,193	3,378	54.1	4,105	25.5*
Business Rates	18,000	17,500	-2.8	17,500	0.0
Sub-total (see 1.2.4 and Appendix)	20,193	20,878	3.4	21,605	4.0*
Police Grant	3,895	3,936	1.1	4,028	2.3
Total Formula Grant	24,088	24,814	3.1	25,633	3.7*
RSG to specified bodies	63	65	2.6	58	-10.8
Dedicated Schools Grant (DSG)	25,072	26,576	6.0	28,171	6.0
Other Special & Specific Grants	10,237	10,671	4.2	11,234	5.3
TOTAL AEF	59,460	62,127	4.5	65,096	5.0*

* These percentages are those quoted for increases from adjusted 2006/07 amounts

5.2 As can be seen, the increase in total grant, or total Aggregate External Finance, adjusted to compare like with like (see 4.3), amounts to 4.5% in 2006/07 and 5.0% in 2007/08. Corresponding increases in Formula Grant, including Police Grant, amount to 3.1% and 3.7%.

- 5.3 The main adjustments relate to where specific grants have been transferred into formula grant (for example Residential Allowances and Preserved Rights in social services), where general funding has been transferred to specific grants (e.g. some capital financing) or where additional funding is being provided for new services, such as the introduction of free off peak bus travel for over 60s and disabled from 1st April 2006.
- 5.4 The Government has powers to cap any authority whose budget is excessive or shows an excessive increase. A number of authorities were capped in 2005/06, and Mr Woolas said on 31st January, "we expect all authorities to budget prudently and not place excessive demands on their council taxpayers. No authority should consider that it might be exempt from capping - if its increase is excessive, capping action will be taken." The Government had previously said that it expects council tax increases on average to be less than 5% for both 2006/07 and 2007/08.
- 5.5 The "Floors" scheme is continuing as part of the four block approach. The floor guarantees a minimum grant increase in Formula Grant, to be paid for by reducing the grant of those authorities who are above the floor. Any authority that provides Education and Social Services will receive no less than a 2.0% increase in Formula Grant in 2006/07 and 2.7% in 2007/08.

6.0 COMPARISON YEAR ON YEAR – LEEDS' POSITION

- 6.1 The allocation of Formula Grant for Leeds City Council is shown in the table below.

	2005/06 ADJUST- ED £m	2006/07 PROVIS- IONAL £m	VARIANCE 2005/06 - 2006/07 %	2007/08 UPDATED £m	VARIANCE 2006/07 - 2007/08 %
Relative Needs Amount		185.0		189.1	
Relative Resource Amount		-38.6		-40.2	
Central Allocation		120.5		123.7	
Floor Damping		-2.4		-1.2	
TOTAL	<u>258.2</u>	<u>264.6</u>	<u>2.5</u>	<u>271.4</u>	<u>2.9 *</u>

* The comparison for 2007/08 is made with an adjusted 2006/07 figure.

- 6.2 Leeds Formula Grant for 2006/07 of £264.6m is an increase over 2005/06 of £6.3m. Its provisional Formula Grant for 2007/08 of £271.4m is an increase over an adjusted 2006/07 figure of £7.7m or 2.9%. Adjustments are made as described in paragraph 5.3 above. As described above in section 5.5, the Government is continuing with the "Floors" approach to grant distribution. Leeds is above the floor and loses £2.4m in 2006/07 and £1.2m in 2007/08 to help pay for those authorities below the floor.

7.0 COMPARISON YEAR ON YEAR – OTHER AUTHORITIES

In comparison with other metropolitan authorities the overall Formula Grant for Leeds has increased by more than the average in 2006/07 but less in 2007/08, as shown below.

	% Increase in Formula Grant between 2005/06 and 2006/07	% Increase in Formula Grant between 2006/07 and 2007/08
LEEDS	2.5	2.9
Birmingham	2.9	4.7
Bristol	3.5	4.9
Liverpool	2.0	2.7
Manchester	2.9	4.4
Newcastle	2.0	2.7
Nottingham	3.3	5.2
Sheffield	2.2	2.9
Bradford	2.3	3.7
Calderdale	2.9	4.0
Kirklees	2.0	3.0
Wakefield	2.2	2.7
Average Core City	2.6	3.8
Average West Yorkshire District	2.3	3.2
Average Metropolitan District	2.4	3.5
Average England	3.4 *	4.0 *

* England figures here exclude police grant, for comparative purposes

8.0 RECOMMENDATIONS

8.1 Members are requested to note the contents of this report.

Background Papers

Reports and papers issued by the First Secretary of State, The Office of the Deputy Prime Minister, together with accompanying explanatory notes, tables and exemplifications.

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5 January 2006

Dear Mr Woolas

Leeds City Council welcomes the opportunity to comment on the provisional 2006/07 and 2007/08 local government finance settlement, issued by the Government on 5th December 2005.

The draft settlement proposes that Leeds receives an overall grant increase of 2.5% for 2006/07. Whilst we welcome the additional national resources which have enabled a settlement which is above that which had been widely forecast, once again we are concerned that Leeds has not fared as well as many other large cities and therefore the grant received does not reflect all the significant cost pressures that we face. In particular this increase does not even cover the pay award for 2006/07 which was agreed at 2.95% over a year ago, and does not adequately take account of many other pressures we face including energy cost inflation, and the acute cost pressures of community care for the elderly.

Leeds has recently achieved four star status in the latest Comprehensive Performance Assessment for which we are rightly proud, and we will continue to strive to improve and ensure that we continue to run an effective and efficient modern authority. We are pleased that our hard work has been independently recognised. We have demonstrated our commitment to use resources efficiently and effectively and expect to exceed the 2.5% Gershon efficiency savings target in 2005/06 and 2006/07. Whilst making significant progress in achieving and exceeding efficiencies, our ability to improve service delivery further is being hampered by grant increases that do not adequately cover base costs and service pressures.

We are pleased that the Government has issued a two year settlement this year as this will assist our financial planning, and we look forward to three year settlements in the future. However there are a number of issues which we would wish to raise arising from the introduction of the new formula system.

The Balance of Funding Review Report produced in July 2004 concluded that the options for reform of local government finance should be judged against a set of key principles. These key principles included the need for the new system to be fair, transparent, more stable and predictable, promote local accountability, achieve evenness of distribution, revenues must be easy to collect and be cost effective and be buoyant. It is not clear to us that the new 4 block system achieves all of these principles. Whilst the longer time horizons gives us greater stability and predictability, the new system seems in general less transparent and more complex than the old distribution system.

We accept the principle that the local Government Finance system needs to allocate grant on a basis which reflects the needs of an authority and takes account of the resources available to that authority. However the damping system means that authorities do not receive their proper allocation. In 2006/07 Leeds loses £3m from the damping mechanism and almost as much in 2007/08. That equates to a council tax increase in each year of about 1.4%, or 2.8% over the two years. We feel that the Government should recognise that the new system is a fairer way to distribute resources and ensure that the protection of floors is paid for through additional grant and not from scaling back authorities' grant that are above the floor.

We recognise and welcome the fact that the new system incorporates the use of empirical data to identify need and distribute resources. However we are concerned that the new system is also heavily reliant on subjective judgement to allocate resources. For example previous analysis shows that in former years grant was distributed 34% needs and 33% resources. However the provisional settlement shows that the split is now 71% needs and -25% resources. The use of unqualified subjective judgement in this example and elsewhere undermines the technicalities of the distribution system that the Government has extensively and rightly consulted upon.

In introducing the new Dedicated Schools Grant, the Government has deducted an amount from each authority which equates to their actual spend. Leeds has for many years chosen to fund schools more generously than suggested by the FSS system, regularly exceeding the minimum "passporting" requirements. This adjustment for 2006/07 means that effectively the Council has been penalised for these past decisions and we have lost more than we have been allocated. This decision has unfairly penalised authorities that were spending above FSS and at the expense of other services. We would propose that the Government should adjust Authorities' grant with reference to FSS.

The provisional settlement figures include projections for population and taxbase for 2006 and 2007. However, whereas the taxbase projections are based on the latest information available, namely the figures submitted only in October 2005, the population projections are based on the 2003 mid-year estimates. The impact of this is that those projections are based upon data at different points. In the interests of consistency and fairness it is essential that the base date for projections for population and taxbase is the same. Therefore as the population projections based upon mid-year 2004 estimates are not yet available, we recommend that the tax base projections are based on October 2003 figures.

Alternatively since the Government Actuary Department have produced the national 2004 based population estimates, we see no reason why 2004 based projections cannot be produced and used, when the mid 2003 sub-national population projections were published in November 2004.

In principle we support the use of projections in the context of three year settlements, but a closer look at the population figures highlight the problem of using projections based on different time periods. In Leeds, for example, the projected population figure for 2006 is 717,246 and for 2007 it is 718,140. Yet the ONS 2004 mid-year estimate is 719,626. So Leeds' population in 2004 has already exceeded the projected figures for two and even three years later.

Leeds is not an area of population decline and taxbase projections show a steady increase. The projections themselves show an increasing population, the 2004 mid year estimate shows an increase over the 2003 figure and taxbase figures also show increases over the years. So there can be no doubt that there is growth and yet these population projections suggest the opposite.

We are also concerned about the validity and accuracy of the 2003 population figures used in the 2005/06 amending report. The mid-year population estimates for the last four years for Leeds are: 2001 – 715,609, 2002 – 716,445, 2003 – 715,235 and 2004 – 719,626. When considered against the figures for 2001, 2002 and 2004, the figure for 2003 is clearly questionable. It goes against the trend of increasing population and is quite implausible in the light of the 2004 figure, and yet this figure has been used as the basis for the 2005/06 Amending Report and the basis for population projections used in the 2006/07 and 2007/08 settlements. We would urge you not to implement the 2005/06 Amending Report at this time in the light of these anomalies in the population figures.

There is a positive correlation between an increasing population and an increasing tax base over time for Leeds. Both population and taxbase are important figures in determining authorities' resources and the current proposals do not allow for the fact that our population is now growing but does allow for the fact that there are more dwellings. This penalises us financially and does not seem at all logical.

This issue was raised by another authority at the Local Government Conference on 9 December 2005 and at that meeting you agreed that you would look into the issue.

A final concern we would wish to raise with you is the distribution of resources in respect of concessionary fares. The allocation of additional grant to each authority has been made on a formulaic basis, however the levy which Leeds and the other Districts pays to the West Yorkshire Passenger Transport Authority is allocated according to population and as a result there is a discrepancy which leaves Leeds with insufficient grant to cover the additional levy; this amounts to £0.5m in 2006/07. We would urge the Government to allocate the grant within each PTA on a population basis to match the levy.

We hope that you will look at Leeds City Council's position in the light of the comments above.

Yours sincerely

Councillor Andrew Carter

Councillor Mark Harris

**Leader of the Council and
Leader of the Conservative Group**

**Deputy Leader of the Council and
Leader of the Liberal Democrat Group**

**Councillor David Blackburn
Leader of the Green Group**

**Councillor Keith Wakefield
Leader of the Labour Group**

cc: Mrs Nikki Hinde

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11th January 2006

Dear Mrs Hinde

Local Government Finance Settlement 2006/07 and 2007/08

Leeds City Council has submitted its main response to the Local Government Finance Settlement 2006/07 and 2007/08 as a letter of 5th January sent jointly by the Leaders of the four main political parties.

However, in addition to the concerns expressed in that letter, I wish to raise a number of further matters specifically relating to capital financing.

Firstly, I am extremely concerned about the fact that because of the scale of clawback under the floor damping system, whereby any amount of formula grant above the floor will be reduced by 86.6%, many capital schemes will now only be partly supported.

So, for example, Leeds City Council has approval in 2005/06 to borrow £42.3m in respect of Building Schools for the Future (BSF), but because of the extent of scaling back through the floors system the expected estimated support in 2006/07 of £4.8m will be reduced to an estimated £1.9m, a loss of £2.9m that will have to be borne by council tax payers.

The same is true of other "supported" capital expenditure. Indeed, in total, including BSF, Leeds will lose at the margins £4.9m of grant for supported capital expenditure.

In addition to that, I am concerned about the adjustments that have been made to capital financing under the heading "3 Year Settlements, Capital Exceptions", where Leeds' formula grant for 2005/06 has been adjusted downwards by £665k and for 2006/07 by well over £2m. There are two issues here; firstly the reductions seem to relate to capital schemes where no borrowing approvals have yet been issued, so it would seem that the reductions relate to future rather than existing schemes, where allocations through formula grant are possibly not even going to be made.

Secondly, the manner in which the adjustments have been apportioned across authorities, namely in proportion to 2005/06 SCE(R), is unfair in that it is distorted by the very large BSF allocations for some authorities.

Lastly, I would wish to say that that some of the 2006/07 SCE(R) figures used in the provisional settlement will need updating for the final settlement. I trust that will be done. For example, the education figure should be £11,507,649 instead of £8,291,942, the transport figure should be £32,111,000 instead of £34,437,097 and the PSS figure should be £752,000 instead of £484,000. If you need any more information on these please contact Peter Beck on 0113 3950863.

Yours sincerely

Alan T Gay
Director, Corporate Services