

## Meeting of the Cabinet – 14th December 2005

### Report of the Director of Finance

#### Provisional Revenue Support Grant Settlement 2006/07 and 2007/08

##### Purpose of Report

1. To present details of the provisional Revenue Support Grant (RSG) Settlement for 2006/07 & 2007/08, and propose an appropriate response.

##### Background

2. Details of the provisional RSG Settlement for 2006/07 were announced on 5th December. Also, for the first time provisional allocations have been announced for the following year - 2007/08. Key features are:
  - A headline increase of 4.5% in total Government funding of Councils (including Schools) in 2006/07 and 5% in 2007/08;
  - An increase in formula grant (total Revenue Support Grant, Non Domestic Rates & Police Grant), beyond the figures in Spending Review 2004, of £305m in 2006/07 and £508m in 2007/08, as announced in the pre-budget report.
  - Total increase of 3.1% in formula grant for 2006/07 and 3.8% for 2007/08;
  - Adoption of a new 'four block' system for formula grant (as set out below).
  - Increase in ring-fenced grant to over 50% with the introduction of the ring-fenced Dedicated Schools Grant in 2006/07;
  - Several spending needs formula changes, including a major review of the formula for Social Services. Specific damping arrangements have been introduced to deal with the redistributive impact of the Social Services changes.
  - General damping arrangements to continue - including floors of 2% and 2.7% (2006/07 and 2007/08 respectively) for Metropolitan authorities - paid for by scaling down the grant increases to authorities above the floor.
2. The new system of formula grant is composed of four blocks:
  - A **relative needs block**, worked out through Relative Needs Formulae (RNF). RNFs are split into blocks covering Children's Services, Adult Services, Police, Fire and Rescue, Highways, Environment Protective & Cultural Services (EPCS) and Capital Financing. As with FSS, 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;
- A **central allocation** amount, which is allocated on a per capita basis;
- A **floor damping block** to ensure that all authorities receive the minimum grant increase.

This new system abolishes the concepts of FSS and Assumed National Council Tax (ANCT), is far less transparent than the previous arrangements, and makes it impossible to undertake meaningful like-for-like comparisons with previous years' figures. Despite the majority of respondents opposing this change when consulted earlier in the year, the Government rejected the arguments put forward.

3. When announcing the provisional settlement, Local Government Minister Phil Woolas stated that:

*“ For over 20 years successive Governments have used a system based on notional figures for spending and local taxation.... But we no longer take that view. The formula is simply a means of distributing Government grant. Notional spending and taxation figures are nonetheless still being misunderstood and misused for a variety of purposes, such as spending or tax targets, for which they were neither intended nor suitable. Such notional figures get in the way of sensible budget setting - because councils treat them as targets, or going rates - and they get in the way of a more mature relationship with local government on doing business together. What I am proposing is a system that deals in an honest currency - cash grant - not fanciful assumptions about spending.”*

*“...the time has come to...give councils firm forward financial allocations. There is no reason why councils cannot now provide similar certainty for their local taxpayers when setting their council tax for 2006/07, by providing an indicative council tax for 2007/08. ... With the next Spending review period we will move to give 3 years of grant allocations to local government. ”*

*“This settlement is good news for councils and tax payers. We have been working closely with local authorities this year to identify the extent of the pressures they face up to 2007/08, and consider the actions necessary to mitigate those pressures. ”*

*“We have provided a stable and predictable funding basis for local services. We expect local Government to respond positively as far as council tax is concerned. Therefore we expect to see average council tax increases in each of the next two years of less than 5%. There is, following today's announcement, no excuse for excessive increases. Local government should be under no illusions; if there are excessive increase, we will take capping action - as we have done over the last two years. ”*

4. The provisional settlement also includes the following funding transfers:

- Transfer of Schools funding to a specific Dedicated Schools Grant (DSG), effectively replacing “passporting” as a means of setting a minimum level of expenditure on schools & schools related expenditure held centrally;
- Transfer of the remaining Residential Allowance grant and a further small part of Preserved Rights grants (Social Services) into RSG;

and includes £350m nationally to cover the cost of free bus travel for the over 60s and disabled people.

5. Compared with the national increase in formula grant of 3.1% for 2006/07 and 3.8% for 2007/08, Dudley's increases amount to 2.8% and 4.6% respectively. In cash terms this gives a formula grant of £101.9m for 2006/07 and £106.3m for 2007/08.
6. The effect of the general damping arrangements is to restrict Dudley's formula grant to over £4m less than what it would otherwise be in each year. The underlying gain largely reflects the return to the Council of resources previously used to maintain Schools budgets above the equivalent FSS.
7. As far as specific grants are concerned, the provisional settlements for 2006/07 and 2007/08 contain increases of 5.1% and 5.5% respectively - well above the increase in general grant. This includes an increase in the Dedicated Schools Grant of 6% in each year. Allocations of specific grants to individual authorities - which will also as far as possible cover both 2006/07 and 2007/08 - will be clarified in due course.
8. As a result of timing of the provisional settlement, it has not been possible to finalise the provisional revenue budget strategy for 2006/07 for consideration at this meeting. This will be reported to the meeting of the Cabinet on 10th January, prior to consultation with the Select Committees.

### **Finance**

9. The Revenue Support Grant Settlement determines the basic resource levels available from the Government to support the Council's revenue budget.

### **Law**

10. The Council's budget setting process is governed by the Local Government Finance Acts 1988 and 1992, the Local Government and Housing Act 1989, and the Local Government Finance Act 2003.

### **Equality Impact**

11. These recommendations comply with the Council's policy on Equal Opportunities.

### **Recommendations**

12. That the Cabinet:
  - Notes the details of the Provisional RSG Settlement for 2006/07 and 2007/08.
  - Authorises the Director of Finance, in consultation with the Cabinet Member for Finance, to make an appropriate response along the following lines.

*Welcoming the Government's decision to increase funding from what was originally being proposed through the Comprehensive Spending Review;*

*Reiterating disappointment that the damping mechanisms applied to the RSG formula are continuing to restrict the level of resources available to the Council.*

*Expressing concern that over 50% of funding is now ring-fenced, contrary to the Government's stated aim of devolving responsibility and accountability for spending decisions.*

*Confirming our opposition to the new methodology for calculating formula grant on the basis that it makes the system less transparent and has no redeeming advantages.*



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**List of Background Papers**

Provisional RSG Settlement papers and electronic communications.