

**PROVISIONAL SETTLEMENTS 2006-2007 And 2007-2008**

**General**

1. This appendix provides an initial assessment of the provisional Local government Finance Settlement.
2. The key points at this stage are:
  - The settlement appears to be marginally better in 2006-2007 than the underlying increase used in the initial Medium Term Budget Strategy reported in October.
  - Harrow, in common with 15 other London Boroughs, has received the floor increase in Formula Grant of 2% in 2006-2007. The average for the London area is 2.8%. In 2007-2008 Harrow will receive the floor increase of 2.7% compared to the London area average of 3.5%.
  - The Government is proposing to adopt a 4-block model of grant distribution to replace the previous system of Formula Spending Shares (FSS). The concept of FSS is being replaced by a Relative Needs Formula (RNF).
  - As part of the move to 3-year settlements the Government has announced provisional figures for 2007-2008 as well as 2006-2007.
  - The Government is proposing to remove the funding of schools from Formula Grant and replace it with a ringfenced grant – Dedicated Schools Grant (DSG).

**National Position**

3. The principle points are
  - An increase of 3.1% in Formula Grant (Revenue Support and Business Rates) in 2006-2007 and 3.8% in 2007-2008;
  - An increase in Aggregate Exchequer Finance of 4.5% in 2006-2007 and 5.0% in 2007-2008;
  - Additional resources above the figures contained in SR2004 of £305m in 2006-2007 and £508m in 2007-2008 as announced in the Pre Budget Report on 5 December 2005.
  - The move to the 4 block system means that total assumed spending and formula spending shares no longer exist. There is also no longer an assumed Band D Council Tax (ANCT).

## Formula Grant And Relative Need Formulae

4. The Government has taken the view that the purpose of the Formula Grant system is not to produce indicative spending or tax targets, as was formerly the case. The system is now intended purely as a means of distributing grant.

The new system of formula grant is composed of four blocks

- A **relative needs block**, worked out through Relative needs formulae (RNF). The RNFs are the equivalent to formula spending shares in the old system. RNFs 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.
- A **relative resource amount**, to take account of different capacity to raise income from council tax. This is a negative amount.
- A **central allocation** amount, which is allocated on a per capita basis.
- A **floor damping block**; to ensure that all authorities receive a minimum grant increase.

Formula grant is now broken down as follows:

**Table 1: Breakdown of formula grant for England**

	2006/07 £m	2007/08 £m
Relative Needs Amount	14,816.648	15,336.750
Relative Resource Amount	-5,129.401	-5,309.456
Central Allocation	11,172.457	11,564.639
Police Grant	3,931.055	4,028.327
<b>Formula Grant</b>	<b>24,790.759</b>	<b>25,620.260</b>

Whilst in some respects the Relative Needs Amount replaces Formula Spending Shares there is no direct comparison. It also cannot be used as a comparison with expenditure on individual services. The reason for this is the introduction of the Central Allocation based on a per capita distribution, which accounts for 75% of the amount distributed by the Relative Needs Amount.

## 2004-2005 And 2005-2006 Amending Reports

5. The Government has issued amending reports for 2004-2005 and 2005-2006 in order to adjust for data errors in some authorities. Harrow lost £129k in 2004-2005 and £79k in 2005-2006, i.e. £208k in total. This reduction will be subtracted from the grant otherwise payable in 2006-2007, but is eligible for protection in grant floors.

## Local Picture

6. Table 2 shows the movement in Formula Grant between 2005-2006 and 2006-2007. A service breakdown is no longer a feature of the system.

**Table 2 Harrow's Formula Grant 2005-2006 To 2006-2007 And 2007-2008**

	£000
	<b>£000</b>
<b>RSG 2005-6</b>	<b>166383</b>
Schools adjustment	-110906
Preserved rights, residential allowances and resource equalisation PSS adjustments	853
EPCS adj (primarily Concessionary Fares)	1304
Capital Financing adjustment	-32
2004-5 amending report adjustment	129
2005-6 amending report adjustment	79
<b>New Base</b>	<b>57810</b>
Formula Grant increase before damping	755
Damping to give 2% Increase	401
<b>2006-2007 Grant</b>	<b>58966</b>
Adjustment to Base 2006-2007 re Preserved rights	-68
<b>New base</b>	<b>58898</b>
Formula grant increase before damping	908
Damping to give 2.7% Increase	682
<b>2007-2008 Grant</b>	<b>60488</b>

Table 3 shows the totals of the components of the formula Grant for Harrow

	2006-2007 £000	2007-2008 £000
Relative Needs Amount	53312	54682
Relative Resources Amount	-30324	-31408
Central Allocation	35577	36532
Floor Damping	401	682
Total Formula Grant	58966	60488
Amending Reports 4-5, 5-6	-208	0
Grant Received	58758	60488

## Floors and Scaling

7. The settlement provides for floors to limit individual authority's losses from the settlement. The floors will be paid for by scaling back the grant increases for individual authorities above the floor.

For local authorities with Education and Social Services responsibilities such as Harrow no authority can have less than a 2% increase in grant in 2006-2007 and 2.7% in 2007-2008.

Harrow's increase in grant would have been 1.3% in 2006-2007 but for the operation of the 2% floor. This benefits Harrow by £401,000. In 2007-2008 Harrow's grant would increase by 1.5% but for the operation of the floor bringing this up to 2.7%. The benefit of the floor in 2007-2008 is £682,000.

### **Personal Social Services Damping**

8. There is added protection in the Personal Social Services formula in respect of Children's Social Care and Younger Adults. This is designed to deliver at least 2.7% in these sub blocks in 2006-2007 and 2007-2008. The cost of damping is paid for by scaling down the increases for authorities above the floor. Harrow benefits by a net of £25,000 in 2006-2007 and £26,000 in 2007-2008.

### **Dedicated Schools Grant And Schools Formula**

9. The Government has removed funding for schools from Formula Grant based upon actual funding for schools in 2005-2006. In Harrow's case the deduction of £110.9 removes £1m more funding than was received in 2005-2006 via Formula Spending Share. The Dedicated Schools Grant is the subject of a separate announcement by the Government and is reported in appendix E. The Dedicated Schools Grant at £118.6m in 2006-2007 is significantly larger than the residual Formula Grant Harrow will receive.

### **Transfers and Special Grants**

10. The aggregate level of specific grants has increased by 5.1% nationally in 2006-2007 and 5.5% in 2007-2008, after adjusting for transfers. The proportion of grants that are ring fenced has increased to over 50% with the creation of DSG. The details of these grants have not all been received as yet, however the settlement did allow for transfers in respect of residential allowances and preserved rights.

### **Formula and Data Changes**

11. Extensive formula changes have been made for 2006-2007 and the most significant of these are listed below together with an indication of the effect as per the exemplifications provided by the ODPM in the autumn. The exemplifications are not precise given the other changes taking place and the updating of data but do give an indication of the extent of the change. Whilst some changes have been beneficial to Harrow, the net effect of the changes is a loss of grant resulting in Harrow receiving below average grant increases in the next two years.

a) Children's PSS. Introduction of new deprivation top up (+£473k), change to the foster care adjustment (£-291k).

b) Elderly PSS. Change in age and deprivation top up (+£870k), Adjustment re low income (-£1706k).

c) Younger Adults PSS. New formula (-£2545k)

d) EPCS. £350m additional funding nationally to provide a free Concessionary Fares scheme. (+£1212k).

e) Resource Equalisation. The national control totals have been uprated to reflect the fact that nationally local government is spending at a higher level. This does not provide any additional funding overall but switches grant to authorities with low Council Tax bases from those with a relatively high tax base such as Harrow (-£817k).

### Changes In Formula Grant

12. The table below shows the changes in Formula Grant per types of authority after adjusting for transfers.

**Table 3: Changes In Formula Grant By Area**

	<b>Change 2006-2007</b>	<b>Change 2007-2008</b>
England	3.1%	3.8%
London area	2.7%	3.5%
Met areas	2.6%	3.6%
Shire areas	3.3%	4.0%
Inner London boroughs (inc. City)	2.6%	3.7%
Outer London boroughs	2.6%	3.5%
London boroughs	2.6%	3.5%
GLA - all functions	3.0%	3.6%

### Impact on the Medium Term Budget Strategy.

13. The provisional Formula Grant entitlement of £58.758m (net of the 2004-2005 and 2005-6 amending reports) is £1.1m greater than that included in the Medium Term Budget Strategy reported to Cabinet in October 2005. The MTBS allowed for £800k being transferred into Formula Grant in respect of Residential Allowances and Preserved Rights. The actual reductions notified are £970k.

### Alternative Notional Amounts And Capping

14. The Government has published draft Alternative Notional amounts. These take account of the proposed adjustments to local authorities' 2005-2006 budget requirements to enable a like for like comparison with 2006-2007 budget requirements for capping purposes. For Harrow the only adjustment is a deduction of £110.9m in respect of schools funding. No capping limits have been announced but the minister has said that the government will take action if there are excessive increases. He has also said that he expects average council tax increases to be less than 5% in each of the next two years.

## **Consultation And Data Amendments**

15. The data used for the 2006-2007 provisional settlement are not final and there will be further changes as corrections to authorities' data are made and updated Supported Capital Expenditure (SCE) allocations are included. These adjustments are expected to include a revision to correct an error in the ONS estimate of population for Harrow to reduce it by 600. The consultation period will run until 11 January 2006 and the final settlement details will be announced some time after, probably towards the end of January.