



Local Government Revenue Grant Settlement 2007/8

SUMMARY

- 1.1 Details of the local government revenue funding settlement for 2007/08 were announced on 28 November 2006. The announcement was simply a confirmation of the 2007/08 figures announced in last year's two-year settlement, and contained nothing new.
- 1.2 Derby's 4.4% increase in formula grant is therefore as expected and does not change existing budget plans. Our increase compares favourably with the national average increase of 3.7%.
- 1.3 The headline figure notwithstanding, there are some aspects of the settlement on which the Council has made representations. The main ones are:
 - the degree to which accepted funding needs have been scaled back to provide additional support to some Social Services authorities and to provide a 2.7% minimum grant increase to all local authorities.
 - the differential impact of a 5% universal capping limit.
 - the inability of long-term settlements to be flexible enough to cover unforeseen local government spending pressures.
- 1.4 Subject to any issues raised at the meeting, I therefore support the following recommendations.

RECOMMENDATION

- 2.1 To note the funding settlement announced for 2007/08 for formula grant.
- 2.2 To agree to continue to prepare the Council's three-year revenue budget for consultation, in accordance with the strategy previously agreed by Cabinet.
- 2.3 To agree to make representations to Government on the detail of the settlement, including the specific points set out in Section 4.



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SUPPORTING INFORMATION

1. Introduction

- 1.1 On 28 November, the Government announced details of its proposals for revenue grant funding for local government in 2007/08. This was year two of a two-year settlement first announced in December 2005, and it therefore contained nothing new.
- 1.2 The purpose of this report is to brief members on the revenue grant settlement, and its implications for the Council's budget strategy, and to establish the basis of the Council's representations.

2. Formula Grant Settlement 2007/8

- 2.1 The national increase in Formula Grant is 3.7%. This compares favourably with the 3.0% increase in 2006/07, but it is unlikely that settlements over the forthcoming three-year period will be as high as this. Derby's increase in grant is 4.4%, higher than the national average, and higher than the average Unitary.
- 2.2 The same method has been used to allocate grant as in 2006/07. That is, there are no figures for assumed spending and assumed council tax underlying the grant. Grants to individual authorities have been calculated according to a complex Relative Needs Formula, which – unlike the previous Formula Spending Shares - does not use cash figures to represent spending need for the different local authority services. This makes it very difficult for local government as a whole (as well as individual authorities) to comment on the level of resourcing that central government has made available for specific services.
- 2.3 The outcomes of the Relative Needs Formulae are converted into individual local authority grants, and these are then either lifted up to a floor of 2.7%, or the amount of grant above the floor is scaled back by 68.84%. This is a slight improvement on last year's scaling factor of 84.5%, but it remains severe. This scaling factor means that Derby's grant has been reduced by £3.4m in 2007/08.
- 2.4 As with last year, an additional scaling factor has been applied to Social Services funding (which is contained within the Formula Grant). This mechanism was introduced to protect some authorities that stood to lose out from the adoption of a new needs formula in 2006/07. According to SIGOMA, a special interest group to

which Derby belongs, the City Council has lost £3.7m in funding due to this (in addition to the £3.4m mentioned above).

- 2.5 In other words, the needs formulae imply that Derby should have received some £7.1m more than it actually did in government grant, but that this has been lost through scaling.
- 2.6 Local Government Minister Phil Woolas MP has announced that he expects the average council tax increase in 2007/08 to be less than 5%. Although this limit applies to all local authorities, in reality a 5% cap affects a high-needs low-taxbase – known as ‘high-gearred’ - authority like Derby City Council much more severely than it affects the average authority. This is because a 5% council tax increase raises fewer resources for Derby, and these resources would need to be stretched further in providing services.
- 2.7 Table 1 shows the comparative pattern of the settlement in more detail, together with the losses due to grant scaling, and compares Derby with some of its neighbouring authorities:

Table 1: Comparative Formula Grant Changes

	2007/08 Grant Increase After Floors %	2007/08 Floor Gain/ (-Loss) £m
England	3.7%	-
Inner London Boroughs	3.6%	-6.3
Outer London Boroughs	3.2%	+50.8
Met Districts	3.5%	-48.5
Unitaries	4.2%	-48.1
Shire Counties	3.8%	+52.1
Districts	4.7%	-
Derby	4.4%	-3.4
Nottingham	5.2%	-7.6
Leicester	4.1%	-4.8
Derbyshire County Council	5.8%	-9.0
Amber Valley	5.2%	-0.1
Bolsover	6.6%	-0.2
Chesterfield	4.2%	-0.1
Derbyshire Dales	3.0%	0.0
Erewash	6.3%	-0.2
High Peak	3.4%	0.0
NE Derbyshire	4.9%	-0.1
South Derbyshire	6.5%	-0.1
Derbyshire Police	3.7%	-5.7
Derbyshire Fire	4.5%	-3.1

3. Implications for the Council's Budget Strategy

- 3.1 As the settlement had been pre-announced in December 2005, there is nothing within the recent announcement that further impacts on the City Council's budget strategy.
- 3.2 However, our concerns are more with spending pressures that have arisen in the year since the 2007/08 settlement was first announced. In particular, the costs of equal pay legislation have now crystallised for many authorities, and Derby expects to make a significant payment relating to this at the start of 2007/08.
- 3.3 In addition, cost pressures have arisen from new legislation being introduced to cover the income that local authorities generate from Land Charges. Next year, authorities will not be allowed to over-recover income from Land Charges, and this could result in a £0.2m pressure for Derby.
- 3.4 There has been no indication that these additional pressures will receive funding from central Government.

4. Issues for Representation

- 4.1 The 2007/08 settlement needs to be placed in context. The headline figure for Derby City Council shows an above-average increase, but the following issues must be borne in mind ...
- The 4.4% increase is not enough to match the increase in our spending needs. This inadequacy is due to the two forms of scaling highlighted.
 - A 5% capping limit, though applicable to all, is less fair to high-gearred authorities as it allows them to generate fewer council tax resources than the average authority.
 - Universal spending pressures that have arisen or become clearer in the last year are not accounted for in the Government's spending totals, and it looks likely that local government will have to find the resources from elsewhere to fund these.
 - The 2007/08 settlement was the final year of a relatively generous two-year settlement. It is a near certainty that future years are not going to be as generous, but the actual levels will not be known until July when the Government's Comprehensive Spending Review is published.
- 4.2 The Council has already responded to the settlement and raised the issues highlighted above, and both SIGOMA and UNISIG – another special interest group, representing the Unitary authorities – are seeking meetings with the Minister to raise many of these issues on their members' behalf.

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Background papers:	ODPM website link at http://www.local.odpm.gov.uk/finance/0708/grant.htm
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. As set out in this report.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The Council's overall budget strategy is being developed in the context of this resource settlement to be consistent with the Council's overall objectives and priorities.