

Report to the Finance and Performance Management Cabinet Committee



Epping Forest
District Council

Date of meeting: 10 December 2007.

Portfolio: Finance, Performance Management and Corporate Support Services.

Subject: Provisional Local Government Finance Settlement 2008-09 to 2010-11.

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Recommendations/Decisions Required:

Members are asked to note the details of the Provisional Local Government Settlements for 2008-09 to 2010-11 and consider amending the budget guidelines previously set down.

Introduction:

1. The Department for Communities and local Government (DCLG) announced the provisional Local Government Finance Settlement for 2008-09 to 2010-11 on Thursday 6 December. After one two-year settlement under the new system a consultation had been undertaken to "update and fine tune" the model and produce a three-year settlement.

Methodology Changes:

2. The "Four Block" system for formula grant that was introduced for the 2006-07 and 2007-08 settlements has remained in place and still has the same 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, 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.

3. However, before looking at the changes in these blocks there have been changes in the payment of some grants that have caused the grant figure for 2007-08 to be re-stated. The table below shows the grants that were previously paid as specific grants but from 2008-09 are included in the overall settlement:

Current Formula Grant 2007-08	£9,161,106
Waste Performance and Efficiency Grant	£56,292
Contaminated Land	£989
New Conduct Regime	£3,207
Stray Dog Control	£7,792
Adjusted Formula Grant 2007-08	£9,229,386

4. The figures in the table above do not mean that there have been any changes to the grants being paid for 2007-08, but in order to look at like for like comparisons it is necessary to make these adjustments.

5. The table below sets out the Council's amounts in each of the four blocks for the five years of data that are now available. In "updating and fine tuning" the model some significant changes have occurred to our outputs. The Relative Needs Amount (what the Government believes we need to spend) has fallen nearly £300,000 for 2008-09 whilst the Relative Resource Amount (a negative amount to reflect our ability to raise income from Council Tax) has increased by over £500,000. This worsening of some £800,000 is offset by an increase in the Central Allocation of £460,000 and a change in the net Floor Damping position of £490,000.

	2006-07 £m	2007-08 £m	2008-09 £m	2009-10 £m	2010-11 £m
Relative Needs Amount	5.728	5.742	5.455	5.457	5.464
Relative Resource Amount	-4.465	-4.724	-5.228	-5.096	-4.956
Central Allocation	7.854	8.332	8.793	8.834	8.871
Floor Damping	-0.490	-0.189	0.302	0.173	0.036
Formula Grant	8.627	9.161	9.322	9.368	9.415

6. The draft figures shown above represent a poor settlement for the Council and give grant increases of only 1% (against the adjusted 07-08 figure) for 2008-09 and only 0.5% for 2009-10 and 2010-11. This seems particularly odd given the sizeable grant increase seen under this system for 2006-07 and 2007-08:

	2006-07 £m	2007-08 £m	2008-09 £m	2009-10 £m	2010-11 £m
Formula Grant (adjusted)	8.627	9.161 (9.229)	9.322	9.368	9.415
Increase £	0.711	0.534	0.093	0.046	0.047
Increase %	9.0%	6.2%	1.0%	0.5%	0.5%

7. When the "Four Block" system was introduced there were many complaints that it had made the system more complex and that it was difficult to try and isolate specific factors that had contributed to changes in levels of grant. This year the DCLG have provided some additional information, although it is far from detailed. The Council's grant entitlement before damping for 2008-09 is £9,019,990, which represents a 2.3% reduction against the adjusted grant figure for 2007-08. The DCLG have broken down the reasons for this change between Resource Equalisation (-1.8%), Methodology (-2.3%), Control Totals (0.2%) and Data (1.7%). All this really tells us is that if the methodology had not been changed our position would not have worsened, as the other factors would have cancelled each other out.

The Floor:

8. The floor increase for shire districts for 2008-09 has been set at 1% and EFDC is one of 94 districts that will benefit from this floor support. In Essex Brentwood, Harlow and Uttlesford are also receiving floor support, whilst the main beneficiaries of the changes are Castle Point, Colchester and Tendring who all receive increases of around 3%. The picture in Hertfordshire is interesting as of the ten authorities in that county only North Hertfordshire (1.5%) and Welwyn Hatfield (4.6%) are above the floor.

9. It is disappointing to again find the Council receiving floor support and the extent of the fluctuations in funding formulas is illustrated by the changes in our net floor position:

	Grant gained from the Floor £'000	Grant lost to support the Floor £'000
2005-06	412	-
2006-07	-	490
2007-08	-	189
2008-09	302	-
2009-10	173	-
2010-11	36	-

10. The government has previously stated that a floor will remain as part of the grant allocation system. However, by increasing the funding within the system overall whilst setting such low floor increases the reality is that the floor is effectively removed for EFDC by 2010-11 as at that point only £36,000 of support is received. A similar effect will be seen in a number of authorities as the number receiving floor support reduces from 94 in 2008-09 to 76 in 2010-11. The continuing existence of the floor will remain a concern for some of our neighbours, for example Brentwood will still receive £811,000 of floor support in 2010-11 which equates to 15.5% of their formula grant and Harlow are in a similar position getting £751,000 or 8.4% of their grant from the floor.

Funding Position:

11. The increase of 1% on the adjusted 2007-08 figures, together with the subsequent increase of 0.5%, is disappointing and below what had been anticipated in the four year forecast.

	2008-09 £m	2009-10 £m	2010-11 £m
Formula Grant	9.322	9.368	9.415
Previously forecast	9.479	9.716	9.922
Grant less than forecast	0.157	0.348	0.507

12. The total amount of financing available is calculated by adding the income from the Council Tax to the formula grant shown above. For 2008-09 a 2.5% Council Tax increase had been anticipated, which would produce an income of £7.687M. Thus the combined funding for 2008-09 is £17.009M (£9.322M + £7.687M).

Conclusion:

13. Elsewhere on the agenda there is an update on the draft General Fund Budget. This report shows the level of Continuing Service Budget (CSB) expenditure for 2008-09 is currently estimated at £16.503M. If this were to be the final CSB figure for 2008-09 then some £500,000 (£17M - £16.5M) could be added to the General Fund Reserve in 2008-09.

14. To fully set the context of the new settlement figures it would be necessary to produce a revised medium term financial forecast. Given the time available this has not been possible, but with the data given here and elsewhere on the agenda Members may wish to re-consider the budget guideline on CSB for 2008-09. As the current draft figure of £16.503M is contained within the budget guideline of £17.314M, but that guideline exceeds the funding available, Members may feel it appropriate to reduce the CSB guideline to £16.8M.