

# Provisional Local Government Finance Settlement

## 14 December 2010

### Headlines

- A two-year settlement for 2011-12 and 2012-13. A second 2-year settlement is expected to follow, for which Government intend to adopt a new distributional system.
- Central government Formula Grant funding for councils (including Revenue Support Grant and pooled Business Rates, but excluding Police Grant and the Metropolitan Police Special Payment) falls by 12.1% in 2011-12 to £24.9bn.
- The total funding for local government, Aggregate External Finance (AEF), falls by 2.7% in 2011-12 when compared with the adjusted 2010-11 figure. This sum includes a 3% increase in ring-fenced and specific grants (mainly schools grant) and additional funding for PFI.
- A transitional grant of £85m for 2011-12, benefiting 37 authorities whose 'revenue spending power' (broadly grants plus council tax) would have otherwise have fallen by more than 8.9%, has been provided to help minimise reductions for authorities facing exceptional decreases in grant allocation.

- Damping will continue with floors as follows:

Social service authorities	-11.3% to -14.3%
Shire districts	-13.8% to -16.8%
Police authorities	-5.141%
Fire authorities	-9.5%

- The different damping figures for social services authorities and shire districts are based on a new banded system which means the most grant dependent authorities have the least reductions.
- An Early Intervention Grant of £2.214bn, a decrease of over 27% when compared with the grants paid to councils in 2010-11.
- Reform of the housing finance system, with detail contained in the Localism Bill.
- The detail of the settlement includes complex distributional changes in areas such as social care and concessionary fares funding.

---

### Further Information:

For further information please contact Ben Kind, LG Group Public Affairs and Campaigns Manager, on 0207 664 3216 or [ben.kind@local.gov.uk](mailto:ben.kind@local.gov.uk)

## **LG Group key messages**

- Local government has been handed one of the toughest settlements across the public sector. Although formula grant (excluding police grant) is being cut by 12.1 per cent, cost pressures in areas such as adult social care, children's protection, waste management, and flood defence will continue to mount. As a result, local government faces a total funding shortfall in the order of £6.5bn in the next two years.
- The new £85m transitional fund is welcome and it will help 37 authorities who would have seen sharp falls in their spending power. However, this still leaves substantially front-loaded cuts for councils.
- Now, more than ever, councils need to be freed to set fees and charges at a level that ensures that service users pay the right share of the costs of many services. This would lead to a fairer system than exists now, where taxpayers heavily subsidise many services because the fees set by Whitehall officials bear no relation to the actual costs of providing that service.
- Councils should be able to capitalise redundancy costs fully. The £200m allocation is less than 0.1% of the local authority asset base. Greater flexibility on capitalisation would allow councils to maximise their spending on frontline services. The flexibility would mean authorities can plan efficiency savings, rather than emergency cuts.
- The reform of housing finance to give financial independence for council landlords is a significant victory for LG Group lobbying, but we will press strongly to remove some remaining Whitehall apron strings, including the retention by the Treasury of 75% of receipts from right to buy sales.
- Although councils recognise that spending reductions are needed to tackle the deficit, they nevertheless face significant pressures over which they have limited control, including:
  - Demand for adult social care, which is expected to grow primarily due to demographic pressures of 4 per cent per annum. Increased care pressures will have to be managed alongside the totality of pressures facing local government budgets, given that almost all health funding has been rolled into formula grant.
  - Landfill tax, which will be rising by £8 per tonne each year. Unless the proceeds of the tax are returned to the sector, the ability of councils to invest further in waste management services will be limited.
  - New flood risk management duties, on which the LGA surveyed lead local flood authorities in August 2010. Respondents expect that their costs will be 33 per cent higher in 2011/12 than they were this year.
  - The cost of redundancies, which are expected to be significant as a result of the front loading of the cuts. We expect that up to 140,000 posts could be lost, which will generate considerable redundancy costs. If councils are not able to capitalise full redundancy costs, they will have to find funding from their revenue budgets, further reducing the pot of funding available for frontline services.
- Following requests from the sector for greater flexibilities, the Government has delivered its promise of ending the ring-fencing on a number of revenue grants.

## Settlement in detail

### Summary of external funding 2011-12

		2010-11	2010-11		
		Settlement original	Adjusted	2011-12	Change
	Total Aggregate External Finance	76,238	75,685	73,610	-2.7%
of which	of which Ring-fenced schools grants including pupil premium	36,154	36,375	38,093	4.7%
	Police Grant (incl. Met. Special Payment)	4,374	4,374	4,546	3.9%
	Total AEF less ring-fenced schools and police grants	35,710	34,936	30,971	-11.3%
	Other specific grants (excluding PFI)	9,974	6,612	6,075	-8.1%
	Net AEF (before post SR transfers)	25,736	28,471	25,014	-12.1%
	Post SR transfers		-147	-118	
	NET AEF	25,736	28,324	24,896	-12.1%
	NNDR Distributable Amount	21,500	21,500	19,000	-11.6%
	Total RSG	4,236	6,824	5,896	-13.6%
	RSG for specified bodies	45	45	33	-27.8%
equals	TOTAL RSG FOR RECEIVING AUTHORITIES	4,191	6,779	5,864	-13.5%
add back	NNDR Distributable Amount	21,500	21,500	19,000	-11.6%
plus	Police Grant (incl. Met. Special Payment)	4,374	4,374	4,546	3.9%
equals	FORMULA GRANT	30,065	32,653	29,410	-9.9%

### Formula grant

- As set out in the Spending Review, £3.4bn of specific grants in 2010/11 has gone into formula grant. Details can be found on the CLG website at <http://www.local.communities.gov.uk/finance/1112/grant.htm>
- Within 2011-12 formula grant, around £2bn of the £3.4bn is being distributed using the same distribution formula as used for the specific grant in 2010-11. The following are rolled into formula grant:
  - Local Transport Services (Road Safety and Rural Bus Services)
  - Supporting People
  - Housing Strategy for Older People
  - LSC Staff Transfer
  - HIV/AIDS Support Allocations
  - Preserved Rights
  - Animal Health and Welfare
  - Funding for civil contingency in London.
- Other transfers, such as concessionary fares, services for children in care and social services grants have been incorporated into the main formula grant.

### Damping arrangements

There will continue to be four separate groups of authorities: Education / social services authorities; districts, police authorities and fire and rescue authorities. However for education / social services authorities and shire districts there will be banded floors, depending on how dependent the authority is on formula grant. The following table sets out the floors for 2011-12 and 2012-13:

	Education/ Social Services	Shire Districts	Police	Fire
<b>2011-12</b>				
Floor				
Single floor			-5.141%	-9.5%
Band 1 - most dependent	-11.3%	-13.8%		
Band 2	-12.3%	-14.8%		
Band 3	-13.3%	-15.8%		
Band 4 - least dependent	-14.3%	-16.8%		
	Education/ Social Services	Shire Districts	Police	Fire
<b>2012-13</b>				
Floor				
Single floor			-6.703%	-3.4%
Band 1 - most dependent	-7.4%	-10.5%		
Band 2	-8.4%	-11.5%		
Band 3	-9.4%	-12.5%		
Band 4 - least dependent	-10.4%	-13.5%		

### Transitional Grant

- In addition to formula grant, the government will pay a transition grant of £85m to those authorities worst hit by the settlement. The transitional grant will be paid to 37 authorities in 2011-12.
- This will mean that no authority has a reduction in 'spending power' (defined as formula grant plus council tax plus some specific grants) of no more than -8.9%.
- The Government says that the average reduction in 'spending power' is 4.4% in 2011-12.

### Business rates

- The distributable amount of Business Rates will be £19bn, compared with £21.5bn in 2010-11.
- The national non-domestic rate multiplier will go up by 4.6% to 42.6p in the pound for small businesses and 43.3p in the pound for other businesses.

### Council tax

- The settlement confirms that there will be a grant of £650m to fund the implementation of a council tax freeze in 2011-12. There will be funding to support this amount in the four Spending Review years. However there will be no funding to support continuation of this freeze to 2012-13.

### Schools and Children's Services Funding (the Department for Education has issued a separate statement)

- The provisional increase for the expanded Dedicated Schools Grant is 3%, but this translates into flat cash per pupil increase, due to pupil number rises. There will be a minimum funding guarantee at school level of -1.5% (this excludes sixth form funding. A separate statement

is expected later this week). In addition there will be a pupil premium of £625m.

- £575.5m of funding to councils, mainly paid through area based grants in 2010-11 is ending.
- The Early Intervention Grant, a non-ring-fenced grant will replace all other non-ring-fenced DfE funding. It will be £2.214bn in 2011-12. DfE say that this is a decrease of 10.9%. However if the ending of the non-ring-fenced grants mentioned above is taken into account the decrease is nearly 28%. Although the Early Intervention Grant is non ring-fenced the statement does mention some streams within it. It will include provision for Sure Start, which was previously ring-fenced, and in 2011-12, will include £64m to prepare for extending free early education to disadvantaged two year olds by 2013. £198m has also been included for short breaks for disabled children.
- Grants for home to school transport and music are ending. The statement says that funding for these will be announced in due course but does not give and further details.
- £2.137 billion of schools capital for 2011-12 has been announced. This includes £800m for additional school places and £1.337 billion for capital maintenance. The Government says that the James Review will inform the allocation of capital from 2012-13.
- £148m in 2011-12 and £265m in 2012-13 is being removed from formula grant to pay for central education functions for academies.

#### *LG Group View*

- Although it will be tougher for schools than in recent years, schools are receiving a significantly better settlement than is being provided to local government for children's services.
- The schools capital allocation is significantly lower than the £15 billion over the course of the Spending Review period that the LG Group estimated was required to meet urgent needs for school places and immediate maintenance.
- The LG Group does not consider that there should have been a transfer of money for central education functions as there will not be a saving in central education costs from academies, and there could be losses of economies of scale.

#### Housing finance reform

- The government will give councils who are landlords financial independence from April 2012.
- There will be a one-off debt settlement in which the majority of councils will take on higher levels of debt; a minority will start with lower debt than currently.
- Across council landlords as a group, the net buyout cost will be £6.5bn.

#### *LG Group View*

- The deal is tough but reasonable, including, for example, an allowance for the cost of disabled adaptations.
- However, some very undesirable Whitehall control remains, including the retention of 75% of Right To Buy receipts by the Treasury, a power to re-open the deal down the line (contrary to the clean break

philosophy) and direct controls over councils' borrowing (when there is no evidence that it could not be managed responsibly under the prudential code.

- The LG Group will be lobbying on the Localism Bill to get these controls removed.

### Adult Personal Social Services

- The transfer of learning disability funding from health to social care is being achieved through the introduction of a specific grant called the Learning Disability and Health Reform grant. It will amount to £1.325 billion in 2011/12, rising slightly to £1.357 billion in 2012/13.
- All other funding related to adult social care has been rolled into formula grant, including Preserved Rights, Supporting People and the extra funding for personal social services announced in the Spending Review.

### *LG Group View*

- The amount that is being transferred to local authorities to support adults with learning disabilities is in the range that we were expecting, which is welcome since this is one of the fastest-growing pressures on local authority budgets.
- There is an additional £1bn for adult social care that will be included within Formula Grant. Without significant real terms increases in funding it is likely that there will be considerable pressure on councils' ability to maintain care services on the current eligibility criteria in the coming years.
- In the long term, the work of the Commission on Funding of Care and Support will be vital to putting in place a sustainable and affordable approach to managing adult social care needs as the current system is reaching breaking point.

### Policing and community safety

- The grant to police authorities has been announced for 2011/12, with indicative budgets for 2012/13 and 2014/15. Allocations have been damped in 2011/12 and 2012/13 to the level of the average reduction.
- Every police authority will see a cash reduction in core government funding of 5.1% in 2011/12 and 6.7% in 2012/13. A number of previously ring-fenced funds have been added in to core grant (e.g. Basic Command Unit funds, Crime Fighting Fund). Where specific grants are added in, the total cash reduction in core government to the funding to the police is 4% in 2011/12 and 5% in 2012/13.
- The Neighbourhood Policing Fund is retained for the first two years of the settlement period: £340m in 2011/12 and £338 in 2012/13. This funding will pass to Policing and Crime Commissioners from 2013/14. In London, the Metropolitan Police Authority will have autonomy over the funding from 2011/12, in recognition of the role the Mayor of London his Deputy already plays.
- Continuing work on value for money, procurement, collaboration between forces and the removal of bureaucracy and consideration of Tom Winsor's independent review of police remuneration and conditions will help forces to make savings.

## *LG Group View*

- Although these reductions will be challenging for the police, the fact that the Home Office allocations are not significantly frontloaded (as the funding for councils is) will help facilitate reductions.
- We welcome moves to simpler funding and the removal of ring-fenced funding streams, which have been rolled up in the core police grant. As an equal partner at the Community Safety Partnership table, councils and councillors have an important role when deciding priorities and allocating funding locally.
- The written statement makes no mention of community budgets in terms of continuing work. This is a missed opportunity and we urge BCU commanders to start discussions locally to see which funding can be pooled to drive improvements at the neighbourhood level.
- The presence of neighbourhood teams is important and continuing funding will ensure that the vital work of PCSOs can continue in our neighbourhoods. However, the allocation of this funding to Policing and Crime Commissioners from 2013/14 needs to come with clarity about the scrutiny powers of the Police and Crime Panels to ensure robust checks and balances are in place.
- The LG Group is glad that the government has delivered on the back loading of the reductions for fire and rescue authorities since this is important in long-term planning. However, reductions of nearly 6 per cent for some (e.g. West Midlands or Cleveland) in year one will still be challenging. Chairs and Fire Chiefs will do everything in their power to avoid hitting the frontline but tough choices will have to be made.

## Concessionary fares

- Revenue funding from Department for transport for local transport, including concessionary fares will reduce by 28% over the spending review period. All funding for concessionary fares will be in formula grant.
- Capital funding allocations for highways maintenance will reduce by 19% over the spending review period (and will be £164m less in 2014/15 than in 2010/11).
- Capital allocations for small transport schemes through the Integrated Transport Block will be cut from £450m in 2010/11 to £300m in 2011/12, and £320m in each of 2012/13 and 2013/14 with £450m allocated for 2014/15.
- Councils will be required to submit bids to access funding from the £560m Sustainable Transport Fund for transport projects that support economic growth and reduce carbon emissions.
- As previously announced the concessionary fares function will be transferred from districts to counties in two tier areas. There will be a new sub-block within the Environmental, Protective and Cultural Services Block of the Relative Needs Formula.
- The amount of special grant being put into Formula will be reduced by £20m from 2012/13.

## *LG Group View*

- The annex details which of the options in the formula grant consultation have been chosen. This is likely to produce significant winners and

losers.

- These reductions target local roads. Councils are already facing a backlog of unfunded road maintenance worth £9.5bn. These reductions in funding will lead to an increase in the backlog and a bigger requirement to invest in the long term.
- The Finance Settlement makes it even more essential that councils are given maximum flexibility over how funding is spent locally. For that reason, we are disappointed that councils will be required to bid for the new Sustainable Transport Fund.
- Problems with funding for concessionary fares are likely to continue as a result of the lack of transparency about whether funding matches the costs of the statutory duty.
- The LG Group will continue to argue that no council should be left out of pocket as a result of the transfer of funding from districts to counties. It is not clear how the savings will be delivered when the costs of the scheme are expected to raise due increase in bus operating costs. The LG Group's proposals for a single subsidy pot for bus subsidies would provide a simpler and cheaper way to administer the scheme.
- The LG Group will be working with affected authorities to assess the full impact of the changes to the concessionary fares scheme.

#### Flood defence

- There will be a new grant paid of £20.9m in 2011-12 and £36.1m in 2012-13 to reflect new responsibilities. There will be a transfer from formula grant of £21.5m in 2011-12 and £42m in 2012-13 to reflect savings on private sewers.

#### *LG Group View*

- The LG Group disputes that these savings are real and we are in discussions with Defra.



## Annex 1

### Formula changes

The following formula changes, consulted on in July 2010, have been implemented. The brackets refer to the exemplifications in the consultation.

- Revised low income adjustment for **social services for older people** (OPSS1)
- Updating data to reflect **police** workload (POL1), changing the treatment of bars within an element of the police relative needs formula (POL2) and rolling some grants into the main Police Grant (POL4)
- Updating the **fire** regression base (FIR1) and the fire risk index (FIR4)
- Removing day visitors in **Highway Maintenance** (HM1) but not in the **EPCS** (Environmental, Protective and Cultural Services) formula.
- A new formula for **flood defence** based on geographical information, but no changes to the coastal defence formula.
- No new supported **capital expenditure** – but in other respects the methodology remains the same
- New weights updating the labour shares within the **area cost adjustment** (ACA1)
- An increase of 10% in the **weight given to relative needs**; the weights will be relative needs 83%; relative resources -26.6%, central allocation 43.6%
- On **concessionary fares**; removing from the district block using a revised weighting within the EPCS and adjusting the baseline grant position based on net 2010-11 revenue expenditure (CONCF3). Concessionary Travel, including the amount paid as a Special Grant in 2010-11 will be added into the county level EPCS formula using a formula based on predicting past expenditure (CONCF8) using indicators to reflect density, deprivation and non car-ownership.
- On **data changes**; they are implementing the data changes affecting incapacity benefit and severe disablement (DATA1), children receiving tax credit (DATA2), using May data for student exemptions in council tax base projections (DATA3) and updating definitions of low achieving ethnic groups (DATA4).

## Annex 2 - Formula grant changes by class and region

Local Authority type	2010-11	2011-12	2012-13
	(%)	(%)	(%)
England	2.6%	-9.9%	-7.3%
London area	2.0%	-9.1%	-7.0%
Metropolitan areas	2.6%	-9.8%	-7.2%
Shire areas	3.0%	-10.4%	-7.5%
Isles of Scilly	2.8%	0.0%	0.0%
Inner London boroughs incl. City	1.6%	-11.2%	-7.4%
Outer London boroughs	2.1%	-11.3%	-7.9%
London boroughs	1.8%	-11.3%	-7.6%
GLA - all functions	2.3%	-4.9%	-5.9%
Metropolitan districts	2.5%	-11.3%	-7.6%
Metropolitan fire authorities	1.3%	-9.4%	-3.0%
Metropolitan police authorities	3.1%	-5.1%	-6.7%
Shire unitaries with fire	3.9%	-11.9%	-7.3%
Shire unitaries without fire	3.0%	-11.3%	-7.6%
Shire counties with fire	3.6%	-12.5%	-8.0%
Shire counties without fire	4.2%	-12.7%	-7.8%
Shire districts	1.4%	-15.0%	-10.8%
Combined fire authorities	2.0%	-4.7%	0.4%
Shire police authorities	2.8%	-5.1%	-6.7%
<b>GO REGIONAL SUMMARY</b>			
South West GOR	3.3%	-10.3%	-7.1%
South East GOR	2.2%	-10.8%	-8.1%
London GOR	2.0%	-9.1%	-7.0%
Eastern GOR	2.9%	-10.6%	-7.6%
East Midlands GOR	3.6%	-10.3%	-7.4%
West Midlands GOR	3.0%	-9.5%	-7.0%
Yorkshire and Humber GOR	2.9%	-10.1%	-7.2%
North East GOR	2.3%	-9.8%	-7.1%
North West GOR	2.7%	-10.0%	-7.3%
<b>FLOOR DAMPING GROUPS</b>			
Education Authorities	2.8%	-11.6%	-7.7%
Police Authorities	2.8%	-5.1%	-6.7%
Fire Authorities	1.4%	-5.8%	-0.7%
Shire Districts	1.4%	-15.0%	-10.8%