

## 1 PROVISIONAL LOCAL GOVT. FINANCE SETTLEMENT 2006/07 SUMMARY OF KEY POINTS

- 1.1 The provisional Local Government Finance Settlement was announced on 05 December, following the Chancellor's Pre-Budget Report. Detailed briefings should be available on the ODPM and LGA websites ([www.local.odpm.gov.uk/finance/0607](http://www.local.odpm.gov.uk/finance/0607) or [www.lga.gov.uk](http://www.lga.gov.uk)) but the main points are highlighted below.
- The announcement provides provisional settlement information for 2007/08 as well as 2006/07. This is the first stage in moving to three-year settlements, linked to the timetable for Government's future Spending Reviews. The Government is also expecting to have notified councils of most of their specific grant allocations by 09 December; the only exceptions should be certain performance or data-led funding streams.
  - The total formula grant (i.e. RSG and redistributed NNDR) being allocated to councils through the settlement amounts to £24.8BN in 2006/07 and £25.6BN in 2007/08. These figures exclude dedicated schools funding, but still represent increases of 3.1% and 3.8% respectively. (When including schools funding, the increases are higher at 4.5% and 5%.)
  - Further to the consultation held over the summer, the Government has introduced some fundamental changes to the way in which it will distribute support to local authorities. The new arrangements move away from the concepts of 'notional' spending and tax levels; the aim now is to focus more on actual cash amounts of grant to be distributed based on four main elements, these being Relative Needs, Relative Resources, a Central Allocation and a Floor Damping element.
  - The concept of minimum guaranteed increases in grant from one year to the next – known as grant floors – has been built in as a permanent part of the distribution system; this links with the Floor Damping element referred to above. For shire districts, the floors for 2006/07 and 2007/08 will be 3.0% and 2.7% respectively. For each class of authority the operation of grant floors will be self-financing, meaning that authorities above the floor have their grant allocations reduced to pay for the cost of giving a floor increase to other authorities in the same group. The table further on in this section highlights the impact for the City Council; effectively the authority will contribute around £250K to the cost of the shire districts' floor in each of the next two years. This has not always been the case, however. Prior to 2005/06, the authority benefited from the grant floor arrangements.
  - With regard to funding levels generally, extra resources of £305M and £508M have been allocated for 2006/07 and 2007/08 in recognition of extra spending pressures. The Minister's Statement to the House of Commons makes reference to 'strengthening the mechanisms to enforce the new burdens procedure'; essentially this relates to more robust assessment of the costs and savings of implementing new policies, and the funding of net costs.
  - More specifically, the following funding issues are highlighted (figures quoted relate to 2006/07 by way of example):
    - £350M has been provided nationally to meet the costs of extending the concessionary travel scheme, as referred to earlier in the report. Whilst it is impossible to say exactly how much of this funding has been allocated specifically to Lancaster, consultation documents published over the summer indicated that an amount of just over £1M would be receivable and broadly speaking, this would appear reasonable given the settlement position.

- Smaller amounts of extra funding have been provided nationally to meet other new spending pressures such as electoral management (c£20M), civil contingencies (c£8M), freedom of information (c£3M) and equality for disabled people (c£3M). Some minor reductions in funding have also been applied in connection with changing responsibilities for critical ordinary waterways, etc.
- No extra funding has been provided to meet the net costs of licensing, but on the same day as the settlement announcement Government apparently reaffirmed its commitment that costs in meeting the requirements of the new Licensing Act 'will be fully met by fees within the national fee regime, provided they are incurred legitimately and efficiently'. As yet no further information has been received on this aspect, however.
- Whilst it is acknowledged that the LABGI scheme referred to earlier will result in separate allocations of NNDR for the authority, linked to local economic growth, it is also noted that the amount of NNDR being redistributed through the 2006/07 settlement is lower than that for the current year (2005/06: £18BN, 2006/07: £17.5BN). Various factors make it impossible to determine whether LABGI is truly 'new money'.

1.2 The provisional settlement is now out to formal consultation until 11 January. Various data elements that feed into the settlement still need to be updated so it is inevitable that the figures will change to some degree when the final settlement is announced, hopefully by the end of January. With regard to the City Council's position, the impact of the provisional settlement information received to date is summarised in the table in the main body of the report.

1.3 It can also be seen from the table that there have been significant switches between the RSG and NNDR elements of government funding. This is because there have been changes in the allocation methods, but it has no direct impact on the Council's total level of government support overall.