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**To:** Cabinet - 14 January 2008

**Subject:** Update on CSR 07 and the Local Government provisional finance settlement

**Classification:** Unrestricted

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**Summary:** This report advises Cabinet of the implications of the Local Government provisional finance settlement for the years 2008 to 2011, which was announced on 6 December 2007. The provisional settlement provides the detail behind the headline figures previously announced in the Comprehensive Spending Review in October 2007.

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## **Introduction**

1. The Government announced its consultative proposals on the Local Government Finance Settlement for 2008-2011 on 6 December 2007.
2. The proposals are particularly complex this year because the Government is:
  - (a) changing the basis on which the formulae operates
  - (b) updating the underlying data used in the formulae
  - (c) making substantial transfers between specific and formula grant, and
  - (d) replacing many specific grants with a new, un-ringfenced Area Based Grant.
3. This is the first ever three year provisional settlement for local government.
4. This report sets out the main changes being proposed by Government and illustrates the impact for Kent County Council.

## **Provisional Settlement - Summary**

5. Background:
  - (a) The Government required any response to its proposals by 8 January 2008.
  - (b) The final Settlement is expected to be announced in late January / early February 2008.
6. National Impact

- (a) Key national figures in the 2008-09, 2009-10 and 2010-11 provisional settlements are:
- (i) A national increase of 3.6% for 2008-09, 2.8% for 2009-10 and 2.6% for 2010-11 in cash terms in total Government Grant on a like-for-like basis, although the figure for 2009-10 needs to be considered alongside changes to the LABGI grant system, which is referred to later in this report.
  - (ii) All education and social services Authorities will get at least a 2.0% increase in grant in 2008-09, 1.75% in 2009-10 and 1.5% in 2010-11.

7. Overall Impact for KCC for the next three years

- (a) Table 1 shows the movements in expected cash yield from formula grant funding for 2008-09. There is an overall increase of £9.2m, which equates to 3.7%, in formula grant funding over the 2007-08 settlement on a like-for-like basis.

TABLE 1: Formula Grant Funding for KCC for 2008-09

	Final Settlement 2007-08 £m	Adjusted Base 2007-08 £m	Provisional Settlement 2008-09 £m	Nominal Increase for KCC £m	Nominal Increase for KCC %
Formula Grant	228.7	249.9	259.1	9.2	3.7%

The main reason for the increase between the adjusted base 2007-08 and the final settlement 2007-08 is the transfer of a number of specific grants into formula grant.

- (b) Table 2 shows the movements in expected cash yield from formula grant funding for 2009-10. There is an overall increase of £5.2m (2.0%), in formula grant funding over the 2008-09 settlement on a 'like-for-like' basis.

TABLE 2: Formula Grant Funding for KCC for 2009-10

	Final Settlement 2008-09 £m	Adjusted Base 2008-09 £m	Provisional Settlement 2009-10 £m	Nominal Increase for KCC £m	Nominal Increase for KCC %
Formula Grant	259.1	258.7	267.1	8.4	3.2%
LABGI		3.2	0.0	-3.2	
Total		261.9	267.1	5.2	2.0%

- (c) Table 3 shows the movements in expected cash yield from formula grant funding for 2010-11. There is an overall increase of £8.8m, or 3.3%, in formula grant funding over the 2009-10 settlement on a like-for-like basis.

TABLE 3: Formula Grant Funding for KCC for 2010-11

	Final Settlement 2009-10 £m	Adjusted Base 2009-10 £m	Provisional Settlement 2010-11 £m	Nominal Increase for KCC £m	Nominal Increase for KCC %
Formula Grant	267.1	266.9	275.7	8.8	3.3%

### Details of Provisional Settlement for KCC

8. The following tables show the like for like grant increase for KCC for the next 3 years. They show the increase in grant by new funding block between each year. The adjusted base includes all the funding changes in that year, and is the figure to be used when comparing the provisional settlement on a “like-for-like” basis.

TABLE 4: Formula Grant Funding for KCC for 2008-09 - Detail

	Final Settlement 2007-08 £m	Adjusted Base 2007-08 £m	Provisional Settlement 2008-09 £m	Increase for KCC £m	Increase for KCC %
Relative Needs	219.4	n/a	268.2	n/a	n/a
Relative Resource	-138.4	n/a	-164.6	n/a	n/a
Central Allocation	145.8	n/a	163.1	n/a	n/a
Floor Damping	1.9	n/a	-7.6	n/a	n/a
Formula Grant	228.7	249.9	259.1	9.2	3.7%

TABLE 5: Formula Grant Funding for KCC for 2009-10 - Detail

	Provisional Settlement 2008-09 £m	Adjusted Base 2008-09 £m	Provisional Settlement 2009-10 £m	Increase for KCC £m	Increase for KCC %
Relative Needs	268.2	n/a	276.5	n/a	n/a
Relative Resource	-164.6	n/a	-170.6	n/a	n/a
Central Allocation	163.1	n/a	171.4	n/a	n/a
Floor Damping	-7.6	n/a	-10.2	n/a	n/a
Formula Grant	259.1	258.7	267.1	8.4	3.2%
LABGI		3.2	0.0	-3.2	
Total		261.9	267.1	5.2	2.0%

TABLE 6: Formula Grant Funding for KCC for 2010-11 - Detail

	Final Settlement 2009-10 £m	Adjusted Base 2009-10 £m	Provisional Settlement 2010-11 £m	Increase for KCC £m	Increase for KCC %
Relative Needs	276.5	n/a	284.4	n/a	n/a
Relative Resource	-170.6	n/a	-176.4	n/a	n/a
Central Allocation	171.4	n/a	179.5	n/a	n/a
Floor Damping	-10.2	n/a	-11.8	n/a	n/a
Formula Grant	267.1	266.9	275.7	8.8	3.3%

n/a = Not available or applicable due to Funding Change

9. KCC's grant increases compare quite markedly with other Authorities. Examples are shown below in table 7.

TABLE 7: Formula Grant Funding increases for selected other Authorities (unadjusted for LABGI)

	Increase in grant on like for like basis			
	2007-08	2008-09	2009-10	2010-11
England	3.8%	3.6%	2.8%	2.6%
East Midlands Region	4.5%	5.5%	3.9%	3.5%
South West Region	4.3%	4.3%	3.3%	3.2%
London	3.4%	2.4%	2.1%	2.0%
<b>South East Region</b>	<b>3.4%</b>	<b>2.5%</b>	<b>2.2%</b>	<b>2.2%</b>
<b>Shire Counties (average)</b>	<b>3.8%</b>	<b>5.7%</b>	<b>4.2%</b>	<b>4.0%</b>
Dorset	9.5%	11.8%	7.5%	7.1%
Norfolk	8.4%	9.3%	5.9%	5.3%
North Yorkshire	5.9%	6.7%	5.2%	5.2%
<b>Kent</b>	<b>2.7%</b>	<b>3.7%</b>	<b>3.2%</b>	<b>3.3%</b>
Sample Kent Districts:				
Swale	8.0%	1.7%	1.3%	1.1%
Canterbury	5.2%	2.9%	2.8%	2.5%
Thanet	2.9%	1.5%	1.1%	1.1%
All others	2.7%	1.0%-2.9%	0.5%-1.8%	0.5%-2.5%

10. The difference between the increase in funding for KCC and the average increase for Shire Counties is 2% in 2008-09. If KCC had received the average increase it would have received an additional £5.2m of grant in 2008-09.
11. The Autumn Budget Statement, presented to Cabinet in September, set-out in paragraphs 102 and 103 the planning assumptions for the next Medium Term Plan. For 2008/09, those assumptions included a zero increase in Government Grant and a maximum 5% increase in Council Tax, which combined with service pressures of some £66m, would have required savings of some £40m. Work is underway on developing the right balance between savings and Council Tax increase, in light of the provisional grant settlement.

## Function and Funding Changes – Specific Grants

12. The Government is making a number of adjustments to each Authority's base figures to reflect changes in function and financing arrangements.
13. Adjustments to base funding reflect transfers from specific grant to formula grant for :
  - (i) Delayed Discharges (in)
  - (ii) Access & Systems Capacity (in)
  - (iii) Waste Performance & Efficiency Grant (in)
  - (iv) Childrens Services (in)
  - (v) Gower Review (Intellectual Property) (in)
  - (vi) Food Hygiene (in)
  - (vii) Animal Feed (in)
  - (viii) New Conduct (in)
  - (ix) Services Directive (in)
  - (x) Student Finances (out)

The net effect on the formula grant of these changes is an additional £21m, which is 'negated' by an equal loss of specific grant income.

## Function and Funding Changes – Area Based Grant

14. The majority of existing specific grant streams are being transferred into a new, un-ringfenced Area Based Grant.
15. This is primarily a transfer of existing grant into a single funding stream. It is also the delivery mechanism for some new grants such as funding for Care Matters Pledges.
16. The amount of funding announced as Area Based Grant (ABG) flowing to Kent County Council is shown as follows in table 8

TABLE 8: Area Based Grant

	2008-09 £m	2009-10 £m	2010-11 £m
Area Based Grant	61.080	96.254	95.007

17. The significant increase in 2009-10 is primarily due to the transfer in to ABG of Supporting People Funding (£32.025m).
18. After adjusting for this transfer, the increase in ABG is worth only around 1% per annum, markedly lower than the increases in formula grant.
19. It is not clear at this stage whether there will be further announcements of grants going into ABG and it is also not entirely clear as to the status of the allocations made directly to Districts (i.e. will they be paid directly or via KCC as the accountable body?).

20. Decisions on the allocation of ABG will be taken in due course by KCC, as the accountable body, having due regard to the consensus view of the Local Strategic Partnership (i.e. the Kent Public Service Board on behalf of the Kent Partnership)

### Function and Funding Changes – LABGI

21. The current Local Authority Business Growth Incentive Scheme provides KCC with budgeted grant income of £3.2 million.
22. The current scheme will cease in 2007-08 but is effectively accounted for a year in arrears so the final budgeted sum will be in 2008-09 for 2007-08 performance. That leaves a financial impact in the following year, 2009-10.
23. The cessation of the current national scheme provides Government with additional funds which have already been distributed as formula grant. The headline increase for 2009-10 is therefore effectively reduced by £3.2 million as we will have to take the first £3.2million of the increase to compensate for the lost LABGI grant.

### Floors

24. Floors have been a regular feature of the grant settlement. The floor element guarantees that no Authority would get less than the floor increase in formula grant support from central government. Formula grant comprises Revenue Support Grant (RSG) and redistributed National Non Domestic Rates (NNDR). The floor is paid for by applying a scaling factor to all Authorities not at the floor resulting in them getting lower grant than would otherwise be the case.
25. Table 9 shows the floors for the different classes of Local Authorities. KCC is an Education and Social Services Authority. Crucially, KCC is not floor funded for any of the three years.

TABLE 9 – Floor Levels

Type of Authority	2008-09 Floor	2009-10 Floor	2010-11 Floor
Education / Social Services authorities	2.0%	1.75%	1.5%
Police authorities	2.5%	2.5%	2.5%
Fire authorities	1.0%	0.5%	0.5%
Shire districts	1.0%	0.5%	0.5%

### Capping

26. In announcing the provisional local government finance settlement on 6 December the Minister for Local Government reiterated the following:

” Keeping council tax under control remains a high priority for the Government. We expect the average council tax increase in England to be substantially below 5 per cent. next year. Let me be clear: we will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases.”

27. In a follow up letter to all Local Authorities on 17 December the Minister made clear:
- (a) “The Government expects the average council tax increase in England to be substantially below 5% in 2008/09. I made it clear to the House that we will not hesitate to use our capping powers as necessary to protect council taxpayers from excessive increases. This applies to all Authorities - including police and fire Authorities.”
  - (b) “No decisions have been taken on capping principles for 2008/09. It would, however, be unwise for any Authority to assume that capping principles set in previous years will be repeated. We intend to take decisions on principles after Authorities have set their budgets, but we are prepared to announce the principles in advance if the circumstances suggest this is necessary.”
  - (c) “In previous years Ministers have written a reminder about the risks of capping to individual Authorities which, on the basis of public information, appear to be heading for high council tax increases. I do not intend to do that this year. The decisions are yours and the Government has set out very clearly the context in which you must make those decisions.”

#### **Likely Changes before Final Settlement**

28. At the time of the provisional announcement it was made clear that there will be a number of changes to the grant settlement by the time of the final settlement.
29. The following are likely to be amended at final settlement as further data and information becomes available:
- (i) Data changes between the issue of the consultation paper and calculation of the final settlement may lead to small changes in the grant floors or in the factor by which grant increases above the floors are scaled back.
  - (ii) The Relative Needs Formula (RNF) element for debt charges is based on provisional information.
  - (iii) The underlying figures will be updated for the Settlement and the debt charges RNF will change for all authorities
  - (iv) The Debt Charges scaling factor is also expected to change, which will affect all authorities.
  - (v) Tax base projections
  - (vi) Flood defence expenditure and Coast Protection expenditure
  - (vii) Revisions to correct any errors in data

It is impossible to predict the possible collective impact of any of these changes.

30. The final settlement is expected in late January or early February.

### **Response to Consultation**

31. The response to Government on the provisional settlement had to be returned by 8 January. At the time of writing this report (late December), the response to Government was still being prepared. The likely main content of the response is attached at Appendix 1.

### **Budget**

32. Our budget proposals will be published by 21 January 2008.

33. Consultation in Kent

(a) The annual budget process formally provides for consultation with the public, Trade Unions, the Business Community, opposition Members and professional organisations.

(b) For members of the public, formal consultation took place on the Saturdays of 22 and 29 September with the market research firm MORI on KCC's study of public attitudes to expenditure priorities and Council tax levels. This research will be available to inform the recommendations made by Cabinet to full Council on 19 February 2008.

(c) Additionally, this year we undertook consultation with young people on Sunday 25 November 2007.

(d) Meetings with Trade Unions and the Business Community will be held in early February and Policy Overview Committees will be considering the budget proposals in the weeks commencing 21 and 28 January 2008.

### **Next steps**

34. A draft Budget will be published by 21 January 2008.

35. The draft Budget will be subject to the Cabinet Scrutiny process, and the views of the Policy Overview Committees will be sought before presentation to Cabinet on 6 February. Cabinet will be able to take into account the final Government Grant Settlement and District Council tax-base information, in making a recommendation to County Council on the Budget and Council Tax on 19 February 2008.



## **Conclusion**

36. The provisional settlement is better than had been expected, and whilst that is welcome, it does fall significantly short of addressing the funding pressures we face as a County Council.

## **Recommendation**

37. Cabinet are asked to **note** the contents of this report

### **Background Documents:**

Existing KCC Medium Term Plan 2007-10

Autumn Budget Statement, Cabinet 17 September 2007

CSR 2007 Announcements by HM Treasury in October 2007

Provisional Local Government Finance Settlement issued by Communities and Local Government in December 2007

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### **Draft content for the response to Government on the Local Government Finance settlement**

1. It is undoubtedly good news for KCC that we are no longer a floor-funded Authority for any of the next three years. It is pleasing that Government has listened to our lobbying to adjust elements of the formula grant allocation, particularly the removal of the 'floor within the floor' for Personal Social Services, making it fairer to Authorities such as KCC.
2. As a consequence of the above, we are pleased that the provisional settlement for Kent is closer to the national average than it has been in recent years. However, our grant for next year is still below the average for all 34 County Councils – had we received the average amount, we would have an extra £5m for services.
3. We are disappointed that the Government grant increase for services over the next three years is below the rate of inflation as measured by the Retail Price Index (4.3% for November 2007). This is likely to lead to difficult financial decisions having to be made.
4. The 3.7% grant increase in 2008-09 is worth an extra £9.2m to KCC. Pressures on KCC's budget next year include £23m for pay and price increases, £12m for increased demands such as the growing numbers of elderly people with disabilities, and about £9m for legislative requirements including Landfill Tax increases. Other pressures and priorities take this total to somewhere around £60m of pressures. With only £9.2m of this increase being funded by Grant, the rest will have to come from efficiencies, new income streams, other savings and an increase in the Council Tax.
5. KCC has neither materially gained nor lost from the adjustments made to the base formula grant in 2008-09, as what has been lost in specific grant has substantially been added into formula grant. Notably, the 2008-09 adjustments have been clearly and transparently published by Government.
6. It is disappointing that LABGI reforms have resulted in £850m being cut from the scheme nationally over the next three years, leaving only £150m to be distributed as follows: £nil in 2008-09 (paid in 2009-10), £50m in 2009-10 (paid in 2010-11), and £100m in 2010-11 (paid in 2011-12).
7. A large proportion of the £850m withdrawn from LABGI will instead be distributed through the Government formula grant, but KCC will only get a small share of this, because we are deemed to have relatively high resources.

8. We are concerned that the Government has not allocated enough grant settlement to cover increasing Adult Social Care costs over the next three years. The LGA estimate that there is an additional £2.6bn needed for Adult Social Care over the next three years, yet the whole of the grant settlement for all services only increases by £2.6bn. Between 2001 and 2026, the percentage of the population aged over 85 is projected to increase by over 90%, and the percentage aged between 65-84 by around 50%. In 2007-08 we faced a demographic pressure of £9m for Adult Services alone, and these pressures are expected to continue in a similar fashion in future years.
9. It is notable that the Comprehensive Spending Review announced a Green Paper to consult on the system of adult care support, to ensure that an affordable system is in place for the 21<sup>st</sup> Century. These systems are intended to ensure effective targeting of resources, making service provision affordable. We encourage Government to develop these systems urgently, to address the insufficient funding that already exists.
10. Although the introduction of Area Based Grants in 2008-09 supposedly provides additional flexibility to Authorities, it will not prove to be advantageous to KCC.
11. We welcome the stability that the three-year settlement offers, enabling Authorities to plan ahead with more certainty than before. However, as we also stated last year, the nature of the settlement in each year is opaque in nature. This means we cannot easily reproduce the grant calculation to determine the basis on which funds have been allocated to us.
12. We hope that data changes between the issue of this consultation paper and calculation of the final settlement do not lead to material changes in the grant allocations.
13. Ministers have stated that Council Tax increases significantly below 5% are expected for next year. Given the pressures of the ageing population, and other pressures that we have already outlined, it is becoming increasingly difficult to balance the budget each year. We will endeavour to ensure that we balance high quality service delivery with people's ability to pay in setting a reasonable increase in council tax.