

SUMMARY OF LGA BRIEFING

Revenue Support Grant Settlement 2005/06

2 December 2004

1. Summary

The provisional Local Government Finance Settlement for 2005/06 was issued by ODPM on 2nd December 2004. This briefing provides initial commentary and analysis.

Key points of the provisional Settlement are:

- Headline increase of 6.2% in Aggregate External Finance (AEF) and increase of 5.9% in Total Assumed Spending (TAS). This compares with increases of 7.3% in AEF and 6.2% in TAS in 2004/05;
- Increase of 5.6% in total Formula Grant and 5.4% in Formula Spending Shares;
- an extra £637m beyond the figures in Spending Review 2004 (SR2004). This includes:
 - an extra £358m in Revenue Support Grant and an extra £50m in police grant;
 - new money amounting to £100m for safeguarding children and £100m for access and systems capacity, for 2005/06 only;
 - £28m extra for fire to enable authorities not to repay transitional funding.
- Additional resources to deal with pressures as follows:
 - £100m relief of pensions pressures due to amended guidance;
 - £60m for additional planning and licensing fees income;
 - £50m for reprofiling of waste targets.
- No changes in total Formula Spending Shares beyond those announced in Spending Review 2004, but a shift of £75m from the Schools Block to EPCS.
- An assumed council tax yield rise of 4.8%, compared with 6.7% in Spending Review 2004; it is assumed within that the taxbase will rise by 1.2% and assumed Band D council tax by 3.6%.
- Reduction in ring-fenced grant to 9% of total grant; but with a prospect of it rising to around 50% with the introduction of a ring-fenced schools grant in 2006/07.
- No formula changes, however updated data used: 2003 mid-year population estimates and New Earnings Survey in the calculation of the Area Cost Adjustment.
- Damping arrangements as follows; no ceilings for any class of authority; floors of 4% for authorities with education and social services responsibilities, 3.75% for police authorities and 2.5% for shire districts and fire authorities. These are paid for by scaling down the grant increases to authorities within the same class above the floor.

Education

There is an FSS increase of 5.6%; compared with a figure of 5.9% in SR2004. This reduction is owing to a shift of £75m from the Schools Block to EPCS. The Schools Block has an increase of 5.8% and the LEA block is increased by 4.2%.

Total specific grants are projected to be £4,436m compared with £4,043m in 2004/05, an increase of 9.7%. Grants within the Standards Fund will be £1,540m compared with £1,296m in 2004/05. However, as announced on 15 October matched funding contributions on some IT grants have increased.

The Schools FSS block has a floor of 5.5% per pupil (5.8% in the Outer London pay area) and a ceiling of 8.75%. The LEA block also has floors and ceilings of 3.5% and 4.95%.

All authorities will receive sufficient formula grant to enable their Schools FSS increase to be passported in full. However for 4 authorities this will account for the whole of their formula grant increase. These authorities are: Richmond, Poole, Bromley and West Sussex.

The shift from Education to EPCS has eased passporting pressures on authorities; without it many more authorities would have been in a 100% passporting position.

Personal Social Services

PSS formula spending shares have increased by 6%; split into increases of 6.9% for Children's PSS, 6% for Elderly PSS and 5.2% for Other Adults PSS. These figures are as in SR2004 but now take into account the shift from specific grants into FSS.

The total of specific and special grants is £2,128m. The FSS baseline has been increased by £367m to take account of the shift in specific grants. This has led to reductions of £205m for residential allowances, £110m for preserved rights and £53m for training support.

There is a one off addition of £100m for access and systems capacity and £100m for childrens services allowing the safeguarding children grant paid in 2004/05 to be continued to 2005/06.

Full details are in Local Authority Social Services letters (2004)25 and (2004)26, available at <http://www.dh.gov.uk/PublicationsAndStatistics/LettersAndCirculars/LocalAuthoritySocialServicesLetters/AllLASSLs/fs/en#4908356>

Highways Maintenance

Total FSS has increased by £2.5%, in line with SR2004.

Environmental, Protective and Cultural Services

The EPCS increase is 2.5%; meaning an increase of 2.8% for county services and 2.4% for district services. There is £75m of new money compared with SR2004, a shift from the Schools Block, as noted above.

The Supporting People allocations for 05/06 have also been announced. Details can be found at <http://www.spkweb.org.uk/WhatsHappening/2.1News.asp> Most authorities have reductions of 5% in line with the reductions in national control totals.

Capital Financing

The figures for capital financing are £3,268.6m, reduced by £425m for PFI Special Grant. The elements for interest receipts and interest on capital receipts are £451m and £367m respectively, leaving £3,661.6m to be distributed as the debt charges element.

Further details of how these figures are worked out are at:
<http://www.lga.gov.uk/OurWork.asp?lsection=59&ccat=1022>

2. The Financing of Total Assumed Spending

Table 1 provides a summary of central government support for revenue expenditure for 2005/06 and how that support has changed since 2004/05.

Table 1: Financing of Total Assumed Spending 2005/06

	£ billion	% of TAS	% Change from 2004/05 adjusted
Total Assumed Spending	79,577	100%	5.9%
Specific Grants	15,406	19%	7.9%
RSG	26,653	33%	-2.2%
Government Grants	42,059	53%	1.3%
NNDR	18,000	23%	20.0%
AEF for receiving authorities	60,059	75%	6.2%
Assumed Council Tax yield	19,517	25%	4.8%

Note: Change is measured from 2004/05 adjusted TAS and adjusted AEF

The **national non-domestic rates** (NNDR) poundage will increase by 3.1% in line with the September 2004 Retail Price Index. The NNDR poundage (the multiplier) for England for 2005/06 is likely to be 42.2p compared to 45.6p in 2004/05. This takes account of a rise in gross rateable value of 17.7% due to revaluation and an adjustment for estimated losses from appeals.

Figures released for SR2004 indicated that the amount to be funded by councils, via the council tax, was anticipated to increase by 6.7%. This was in direct contradiction to the government's view that council tax increases should be in low single figures in 2005-06.

Today's pre-budget report recognised that the SR2004 failed sufficiently to recognise the pressures facing local authorities, and announced an additional £358m for RSG in 2005/06. Income from council tax is now assumed to increase by 4.8% on an adjusted basis. Assumed National Council Tax will increase by 3.6%, from £1061 to £1099, with taxbase growing by 1.2%.

Average council tax in 2004/05 was £1,167. Actual council taxes in 05/06 will depend upon decisions by authorities.

The Government have said they are "prepared to take even tougher capping action next year" than in 2004/05, to achieve their "low single figures" expectations. The LGA has made it clear our strong opposition to any such move.

3. Ring-fenced grants

The amount of grant that is ring-fenced has fallen to 9%, in line with government promises in Spending Review 2002. The LGA had urged that the level of ring-fencing be cut to 4.5%; the level it was at in 1997/98.

This reduction is welcome but it is expected to be sharply reversed in 2006/07, when, if the government go ahead with their proposals to ring-fence schools funding, the amount of grant that is ring-fenced will increase to over 50% of the total.

4. Formula Spending Shares changes

There is a formula freeze for 2005-06, so there are no formula changes, however:

- An amending report for 2003-04 was issued on 18th November 2004 to take account of updated data (primarily revised 2001 mid-year population estimates) and rerun the regressions underlying formulae for personal social services, highways and fire. The Assumed National Council Tax shares, set judgementally in 2003-04, were also changed in order to ensure that shire districts as a class do not suffer any grant loss. Effects have been taken into account in 2005/06, with the proviso that no authority receives a grant increase lower than the floor for that class of authority.
- New 2003 mid-year population estimates will have an impact, particularly in London, where numbers are estimated to have fallen.
- Using updated New Earnings Survey data in the calculation of the Area Cost Adjustment (ACA), produces small changes in the ACA calculated for each area, compared to 2004-05. However, these changes are large enough to alter the authorities which receive an ACA top-up e.g. Merseyside loses; Inner London gains.

Some data in the settlement will continue to come from the 1991 census. The Government take the view that, since many indicators have changed greatly from 1991 to 2001, it would be inappropriate to incorporate new data without changing the underlying formula, which would breach the freeze.

5. Damping Arrangements

Damping arrangements will continue to operate so that every authority will get at least the grant floor for that class of authority. This will be paid for by scaling back the grant increase above the floor for other authorities in that class. There will no longer be a grant ceiling for any class of authority.

The table below summarises the position compared with 2004-05

	Education/ Social Services	Shire Districts	Police	Fire
2004-05				
Floor	4.0%†	3.00%	3.25%	3.50%
Ceiling	7.50%	50.0%*	25.0%*	5.00%
Middle	-6.30%	-78.50%	-99.50%	-16.92%
2005-06				
Floor	4.00%†	2.50%	3.75%	2.50%
Ceiling	-	-	-	-
Middle	-11.37%	-59.20%	-55.93%	-42.23%

†this floor is higher for some authorities to enable them to have a sufficient grant increase to passport in full

*these were notional figures for ODPM modelling purposes. The floor was paid for wholly by scaling down the grant increase of authorities in the middle.

The LGA had been consistently opposed to ceilings, which penalise those authorities for which higher than average grant increases are due to increases in demand such as those reflected in pupil numbers and population figures, and therefore welcomes this change.