

Briefing Paper

Revenue Support Grant Settlement 2010/2011

February 2010

Overview

This briefing paper reviews the plans of the Secretary of State for Communities and Local Government (Secretary for C&LG) under section 78a of the Local Government Finance Act 1988 (LGFA 1988) for the determination of the 2010/2011 financial year revenue support grants that will be paid to each authority.

The Local Government Finance Settlement 2010-2011 as announced in a written statement by local government minister Barbara Follett, confirmed no changes to the formula grant for 2010-11 as in previous years of the three year settlement first announced in 2008.

The figures are for one year only as there has yet been no indication as to what funding councils will receive after April 2011 and beyond. This will be dependent on the Comprehensive Spending Review of 2010 that is expected to include significant public expenditure reductions.

The proposed increase in total aggregate external finance (all grants plus redistributed business rates) is 4%. This compares with an increase of 4.2% in 2009-10. This reflects the lower formula grant increase.

The increase in the net aggregate external finance (redistributed business rates and RSG) is down from the 2009-10 figure, from 2.8% to 2.6%.

There is no change in damping arrangements which remain as follows; floors of 1.5% for authorities with education and social services responsibilities, 2.5% for police authorities and 0.5% for shire districts and fire and rescue authorities.

These are paid for by scaling down the grant increases to authorities within the same class above the floor.

Key Points

The key points of the settlement are as follows:

- The three year settlement formula remains unchanged from previous years of the grant settlement. This is widely welcomed by local authorities as this has given councils more certainty in their ability to plan their finances and structure their budgets.

It must be noted that there will be no reductions to the 2010-11 settlement further to its approval by Parliament.

- It must be noted that in the 2010-11 financial settlement the government is assuming that £125million for the six months from October 2010 to April 2011, and £250million in a full financial year, will come from efficiency savings.

Although local government is the most efficient part of the public sector as local government as a whole made savings of just over £3 billion from 2005-2008 and a further £1.7billion in the period of 2008-2009, further efficiencies may already have been accounted for before this policy was introduced

- Councils will be under strict instructions to deliver more for less, however they consider that they are being hindered from doing this by the costs of centralised regulation. Inspections and bureaucracy are considered to be hindering real progress being made in this area.

This is seen as taking resources away from frontline services which are in desperate need of more resources. It is estimated that £4.5billion could be saved by reducing monitoring and regulatory burdens on councils, and cutting back unnecessary Whitehall policy activity and control in this area freeing up councils to produce better quality for less without fear of bureaucratic problems.

- Council tax rises and capping has been a much publicised issue. It was noted that in the Minister's statement she explained that she expects council taxes to fall to a 16 year low in 2010-11. Because of this it seems strange to continue the policy of council tax capping within this year's settlement. Many local authorities have set record low Council Tax increases for 2010/11 or have even made reductions in Council Tax.

Three Year Settlement

2010-11 is the third year of the three-year settlement. The funding is unchanged from the level originally announced in January 2008.

This has been widely welcomed with the Government maintaining grant levels. This has given councils more certainty in their ability to plan their finances and prepare their budgets.

This is mainly welcomed as budgets are under pressure as sources of income such as planning fees and parking have reduced sharply in recent years.

Lower interest rates due to the economic downturn have also led to reduced income from investments within the sector. This is an issue for councils that have managed prudently and have been able to use interest receipts to keep council tax down.

However, ability to plan ahead has been hampered by the fact that councils do not know what their grant settlement will be following April 2011 as there are no plans in place beyond this date.

Using figures from the Institute of Fiscal Studies, it can be calculated that local government could on realistic assumptions in the very near future, face a potential funding gap in 2013-14 of £11billion per annum.

Free Personal Care

The Revenue Support Grant 2010-2011 also saw the announcement of the implementation of free personal domiciliary care for the highest category needs elderly from September 2010. The Government is assuming that £125million in 2010/11 (£250million in a full year) will come from efficiency savings.

The Government proposes to pay, through area based grant, £210million (£420million in a full year) for the implementation of free care at home for people with high personal needs.

There is an expectation that the overall cost will be £670million in a full year and that the £250million difference will be funded by local government efficiencies.

The Department of Health consultation document published on 25th November 2009 contains three options for distribution of the grant. However none of them contain an assessment of the distribution of the efficiency savings.

Local government is considered to be the most efficient part of the public sector. The sector made savings of more than £3billion between 2005 and 2008 and a further £1.7billion in the year 2008/09.

The 2009 budget further raised the efficiency target for local government for 2010-11 to 4% of spending. These efficiency savings are on top of this higher figure.

Local authorities are seeking clarification as a matter of urgency of how these savings have been calculated and where they are expected to come from.

Capping

Ministers expect average council tax rises to fall to a 16 year low in 2010-11. In 2009-10 the average council tax rise was 3%; this was the lowest since the year following the introduction of the tax.

It is considered that the Government's proposed policy of capping determinations, involving the retrospective review of decisions for which locally elected representatives are very obviously democratically accountable, is inappropriate.

Moreover, it is considered by many in local government that there is no evidence that it is necessary as Councils have proved themselves adept in managing financial pressures sensibly and delivering significant efficiencies for their residents.

Therefore, it is considered that there is no case for any continuation of Council tax capping. No council will readily propose a high tax increase at a time of recession, but the flexibility to manage pressures on council income continues to be essential.

However, some Trade Unions have criticised Councils for setting low Council Tax increases and making Council Tax reductions at a time when there is a need to raise resources to maintain services for which the level of need is increasing.

Concessionary Fares

The Department for Transport is consulting on a revised distribution for the Special Grant for implementing the England-wide concession scheme which started on 1st April 2008.

Because of this the Local Government Association (LGA) has called for the resources put into the scheme to be kept under review and for additional resources, if necessary, to be put in.

Some authorities faced large shortfalls in 2008/09 and 2009/10 and they will welcome increased Special Grant funding in 2010/11 if Ministers decide to confirm the revised Special Grant distribution.

However, because of this other authorities lose resources and this will cause difficulties for them in the planning of their 2010/11 budgets.

The Local Government Association has called for the 2010/11 Special Grant to be confirmed and paid to councils as quickly as possible to avoid the loss of resources as is feared.

Following the confirmation from Ministers in the Pre-Budget Report that the Government is to proceed with moving responsibility for administration of concessionary fares from Districts to Counties from April 2011, the Local Government Association has also called for the Department for Transport and Communities & Local Government to work on possible exemplifications of the change through the Settlement Working Group.

So far exemplifications have not illustrated the impact of changes in methodology.

There are concerns from a number of authorities particularly District Councils about how the changes in distribution will affect them. For the moment this area remains very uncertain.

Review of Ring-Fenced Grants and Multiple Funding Streams

In 'Putting the Frontline First: Smarter Government' the government says that:

"Unnecessarily rigid frameworks can limit frontline organisations' ability to combine resources effectively to meet local priorities and needs."

As a result, local authorities cannot always make the spending decisions that matter to their local population. Some of the barriers include things such as:

- Overuse of ring-fenced budgets...out of 52 specific revenue grants to local authorities totalling £76.3billion, 36 are currently ring-fenced, to the value of £39.5billion.
- Multiple national funding streams, which can get in the way of cross-sector working. For example, there are 102 different local authority revenue funding streams, including 49 in education and children's services, 11 in adult social care and six in policing.

- Disincentives to align budgets across local organisations because of the complexity of operating pooled budgets and lack of clarity about roles and responsibilities”.

The Government’s commitment has been welcomed by local authorities; in the Budget 2010, to set out proposals to reduce the level of ring-fencing to authorities and to reduce the number of funding streams across the boards.

It must be noted that out of the £39.5billion grants mentioned, over £38billion are in the area of schools and children’s services. The ring-fencing of schools’ funding has made planning integrated children’s services more difficult.

Efficiency Savings and ‘Delivering More for Less’

Recent figures show that Local Government has made £3billion efficiency savings over the recent years.

This shows that the sector is on target for meeting the original target of £4.9billion efficiency savings over the Comprehensive Spending Review period 2008 to 2011.

It must be noted that a further £0.6billion of efficiency savings were set as part of the measures taken in Pre-Budget Report 2009.

The Local Government Association in a recent publication ‘Delivering More for Less’ has shown how government could save £4.5billion by reducing data burdens and regulation of council’s unnecessary central government policy activity and prescriptions central government control over council spending the number of quangos reallocating their funding to councils.

All You Want to Know about Local Authority Finance 2010

‘AWICS’ is holding the 2010 series of seminars on ‘All You Want to Know about Local Authority Finance 2010’ at venues around England between March and November 2010. These popular seminars are filling quickly but there are still some places available.

This course gives an introduction and overview to this important subject. The speaker is Adrian Waite, Managing Director of ‘AWICS’ who is well know for his knowledge of local authority finance and his ability to explain technical and financial matters clearly; and who is a former Assistant County Treasurer and Borough Council Director of Finance.

The cost of this seminar is £260 plus VAT in London and £230 plus VAT at the other venues, making a total of £305.50 in London and £270.25 at the other venues. The fee includes lunch.

This represents excellent value for money but there are also discounts available. For further information please visit our website or contact our office.

If you think that a working knowledge of local authority finance, including the 2010/11 Revenue Support Grant Settlement, acquired at our fully up to date seminar, would put you and your colleagues in a position of advantage you should attend this seminar.

Whether you are in a London Borough, Metropolitan, Unitary, County or District Council or a Government Office or otherwise involved in local government; whether you are an Elected Member, Non-Financial Manager, or even a member of the Finance Team, you could benefit from one of our courses at which you will learn: 'All You Want To Know About Local Authority Finance'.

What the Course will Cover:

The seminar has been comprehensively updated and covers:

General Fund Expenditure and Income, Local Government Finance settlement 2010/11, Revenue Support Grant, Business Rates, Budgets and Council Tax, Specific Grants, Financial Management, Capital Expenditure and how it is financed, Prudential Borrowing, Capital Receipts, Treasury Management, Asset Management, Private Finance Initiative, Education Finance, Social Services Finance, Transport Finance, Housing Revenue Account, Superannuation Fund, Collection Fund, Local Area Agreements, Local Strategic Partnerships, Area Based Grant, Comprehensive Spending Review 2010, The Efficiency Agenda and Shared Services, Inspection and Use of Resources, Supplementary Business Rate, Income Generation, The effect of the Recession on Local Government.

The course is accompanied by a very useful 100 page book entitled:

"All You Want To Know About Local Authority Finance 2010"

Venues and Dates:

London: Ibis Hotel, Euston – 16th March 2010

Cumbria: Hallmark Hotel, Carlisle – 4th May 2010

Midlands: Walton Hotel, Nottingham – 14th September 2010

North: Novotel West Hotel, Worsley, Greater Manchester – 22nd November 2010

If you would like more information or would like to make a booking, please visit http://www.awics.co.uk/RegionalSeminars/ViewCourse/local_authority_finance_2010.

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