

CABINET
20 DECEMBER 2011
PROVISIONAL LOCAL GOVERNMENT SETTLEMENT
2012/2013

Portfolio Holder: Councillor Alan Jarrett, Finance
Report from: Mick Hayward, Chief Finance Officer

Summary

This report provides Cabinet with details of the provisional Local Government settlement announced by Government on 8 December 2011.

1. Budget and Policy Framework

1.1 The provisional settlement is an important step in the process of setting the 2012/13 budget in that it gives a firm base to the resource anticipation around which the draft budget has been based. This is a matter for Cabinet at this stage. Later it will be the role of Council to adopt the budget for 2012/13.

2. The Settlement

2.1 The Secretary of State announced the provisional financial settlement to the House of Commons on 8 December 2011. The settlement continues to be based on the former 'Four Block' methodology and is confirmation of the second year of the announcements following the Spending Review last year. The announcement launches a consultation period on the proposals that will end on 16 January 2012.

2.2 The headline features of the Provisional Local Government Settlement for 2012/13 are:

- An average reduction in formula grant between 2011/12 and 2012/13, on a like-for-like basis, of 7.3% (Medway's reduction is 8.3%);
- Confirmation of the funding of the 2012/13 instalment of the Council Tax Freeze grant for 2011/12, which has now been incorporated into the Formula Grant total so as to ensure that the national yield from Business Rates in 2012/13, estimated at £23.119bn, will be less than the total allocated as Formula Grant (£27.791bn);
- The Localism Act also included powers to abolish Whitehall capping in England and instead allow local residents to veto excessive council tax rises. This excess is now defined as:
 - 3.5% for most principal authorities
 - 3.75% for the City of London

- 4% for the Greater London Authority, police authorities, and single purpose fire and rescue authorities.
- The announcement also highlighted that the DfE was commencing a consultation on the Academy transfer in respect of the top-slice for the Local Authority Central Spend Equivalent Grant (LACSEG) with a proposal to keep the 2011/12 amounts unchanged and to calculate the LACSEG costs in each authority towards the end of the 2012/13 financial year with a proviso that for those authorities where the costs of LACSEG are calculated to be above the level of the current top-slice for 2012/13, the government will cap the amount to be transferred at the level of the current top-slice from formula grant i.e. *“no further funding will be recovered from those authorities”*.

3. Impact upon Medway

- 3.1 For Formula grant the Department of Communities and Local Government (CLG) provide an adjusted baseline that translates the 2011/12 grant to an equivalent figure in the new formula calculation. For Medway this revises the allocation from £86.096m to £85.402m – a decrease of £0.694m attributable to the transfer for Academies of £0.598m and Private Sewers of £0.096m. For 2012/13 the provisional Formula Grant (excluding Council Tax Freeze Grant) is £78.280m - a cut of 8.3%.
- 3.2 At 8.3% Medway’s loss of grant is higher than the Shire Unitary average of 7.6% and indeed is higher than all other averages, including Counties and London Boroughs, save for Shire Districts. The all England average reduction was 7.3%.
- 3.3 The table below demonstrates the Formula grant and make up for 2012/13 as issued by CLG:

	2011/12	2012/13
	£000	£000
2011-12 Formula Grant	86,096	
Adjusted 2011-12 Formula Grant (£)	85,402	
Revenue Support Grant (£)		1,535
Redistributed Business Rates (£)		79,208
Formula Grant (£)		80,743
Grants Rolled In Using Tailored Distribution		7,963
Relative Needs Amount		65,110
Relative Resource Amount		-24,184
Central Allocation		31,691
Floor Damping		-2,300
Council Tax Freeze Grant		2,463
Total	85,402	80,743
% reduction		-5.5%

The reduction of 5.5% is after allowing for the inclusion of the Council Tax Freeze Grant not included in the 2011/12 baseline. Excluding this produces the more accurate reduction of 8.3% on a like-for-like basis.

- 3.4 Formula Grant is calculated by way of a complex set of formulas and then to ensure that no individual authority suffers losses in excess of government floors a damping grant is applied to authorities in excess of that floor and redistributed to authorities below the floor. For a number of years Medway has lost out from this mechanism and that continues to be the case although the movement in damping grant reduction is at least in a favourable direction.

Floor Damping 2010/11 £4.320m
 Floor Damping 2011/12 £3.506m
 Floor Damping 2012/13 £2.300m

- 3.5 The Settlement announcement is accompanied by a re-iteration of the concept of 'Spending Power' - defined as formula grant plus council tax plus some specific grants. In addition it includes funding allocated to the NHS for social care and health benefits. The council tax figure also includes the Parish Precept and the Council Tax Freeze grant albeit indicative sums for 2012/13 are not included in the Spending Power calculation. The purpose is to identify the movement in spending power (-3.1% for Medway) and then to use this to award Transitional Grant to any authority with a loss greater than 8.8%. Medway does not benefit but obviously the overall sum allocated of £20 million is a top slice to the total funds available. Some 12 councils benefit from this (including Thanet in Kent), the largest being Burnley at £3.237m.

- 3.6 Council Tax – The settlement confirmed that there will be a further grant of £675.9m to fund a council tax freeze in 2012/13, Medway will receive an additional grant of £2.488m in 2012/13 should the Council choose to freeze Council Tax again. However there will be **NO** funding to support this amount in future years.

4. Department for Education (DfE)

4.1 Dedicated Schools Grant (DSG)

- 4.1.1 The DfE has not made any announcements about the level of DSG for 2012/13, but the 'Guaranteed Unit of Funding' is expected to remain the same at £4,953 per pupil. Current estimates suggest that pupil numbers for 2012/13 will be 248 higher than 2011/12. Consequently the gross DSG is expected to increase by £1.229 million in 2012/13 as follows:

DSG Estimates:	2011/12	2012/13	Change
Pupil Numbers	39,933	40,181	248
DSG per pupil	£4,953	£4,953	£0
DSG (£million gross)	£197.789	£199.018	£1.229
Academy transfer	£45,158	£88.061	£46.903
NET DSG (£million)	£152.631	£110.957	£41.674

- 4.1.2 The DSG is calculated initially using the pupil numbers for all schools in Medway, including academies. Subsequently the DfE will reduce the Council's DSG allocation in respect of schools that have converted to academies. Academies are expected to account for £88.061 million, leaving Medway's net DSG allocation at £110.957 million.
- 4.1.3 The Government has consulted on new funding arrangements for schools but changes will not be implemented until 2013/14.

4.2 *Pupil Premium*

- 4.2.1 Schools receive a separate grant to improve the attainment of pupils from deprived backgrounds based on pupils eligible for a free school meal, Looked-After Children, and children with a parent in the armed forces.
- 4.2.2 The funding rate for 2011/12 was initially set at £430 per pupil but was increased in-year to £488. The government is committed to increasing the value of the premium each year for the next three years but has not announced the rate for 2012/13 yet. The MTFP assumed a premium of £700 per pupil and this produces a total grant for Medway schools (including academies) of £3.767 million in 2012/13.

5. **Capital Settlement**

- 5.1 The capital settlement announcements are often delayed and this is the case for the DfE and CLG's own grant funding. However the DfT and DoH have both released funding figures and the Medway elements are listed below.

	2011/12	2012/12
	£m	£m
Department for Transport (DfT)		
Highway Maintenance	2.353	2.350
Integrated Transport	1.477	1.576
Department for health	0.489	0.504

6. **Impact on the Capital and Revenue Budget 2012/13**

- 6.1 The draft budget that Cabinet approved on 29 November 2011 was predicated on the funding assumptions contained in the MTFP. Formula Grant is now confirmed as expected at £78.280m and DSG, based on the comments in section 4, is not forecast to change. Council tax was forecast to increase by 2.5% and this will now occur, if the Council opts to take the route of freezing Council Tax again, by way of the proposed grant for 2012/12 that was announced by the Chancellor of the Exchequer in October. Other specific grants, including capital, will be subject to further announcements by the various funding departments and variations will be captured within the budget building process.

7. Risk management

- 7.1 There remains a small possibility that consultation changes could affect the overall position for the Council in terms of Government support. This is a low risk but in the event that it proves to materialise there will remain time between the final announcement in January and the presentation of the proposed budget by Cabinet in February to adjust for any adverse, or favourable impact prior to Council agreeing the budget.

8 Financial and legal implications

- 8.1 The financial implications of this report are set out above. There are no direct legal implications.

9. Recommendation

- 9.1 That Cabinet notes the provisional settlement as an essential part of the budget setting process for 2011/2012.

10. Suggested reasons for decision(s)

- 10.1 These provisional levels of grant form a fundamental component of the 2011/2012 budget, and their announcement is a further stage in the process of preparing a balanced budget.

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Background papers

Capital and Revenue Budget 2012/2013 report to Cabinet on 29 November 2011
Medium Term Financial Plan 2012/2015 report to Cabinet on 6 September 2011