



PORTFOLIO AREA: FINANCE AND RESOURCES

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Title: PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT
2002/03.

Report of: The City Treasurer

Report reference: Financial Memo 2001/02 No. 121

Summary:

This report summarises the Provisional Revenue Support Grant Settlement for 2002/03 announced by the Secretary of State on 4th December and details the implications for the City Council's 2002/03 Budget and Council Tax.

Recommendations:

It is recommended that the Executive note the Secretary of State's Provisional Local Government Finance Settlement. The implications of the settlement for Carlisle's budget and indicative Council Tax for 2002/03 is dealt with in a separate report considered elsewhere on this agenda (Financial Memo 2001/02 No. 120)

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: Provisional Local Government Finance Settlement issued by the DTLR 4/12/01.

To: The Chairman and Members of
The Executive
17th December 2001

Financial Memo
2001/02 No. 121

PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2002/03

1. BACKGROUND INFORMATION

- 1.1 On 4th December 2001, the Secretary of State for Transport, Local Government and the Regions (DTLR), announced his provisional intentions to Parliament for the Provisional Local Government Finance Settlement for England for 2002/03.
- 1.2 This report provides the main details of that settlement. To aid Members understanding, a Glossary of Terms used in this report is attached at **Appendix 1**.

2. NATIONAL SETTLEMENT

- 2.1 The main details of the Provisional Settlement for Local Government as a whole, is contained in an LGA briefing paper, attached at **Appendix 2**. The key features of the national picture are:

- A headline 7% increase to £60.555bn in Council's Total Standard Spending (TSS), which is the Government's view of the appropriate level of local authority revenue expenditure. Of this increase, 8.7% is for Education. District Council's receive a 'class increase' to support Environmental, Protective and Cultural services (EPCS) of 4.4%.
- Financing of the 7% increase in TSS is by way of:

Specific Grants	15.3%
Revenue Support Grant	1.9%
Other Grants	-30.0%
NNDR	9.8%
Standard Council Tax Income	5.6%
- The Government have extended the 'floors and ceilings' approach to damp grant changes to Police, Fire and Shire Districts. For Shire Districts, the floor has been set at 2.3% and the ceiling at 10%.

2.2 The proposals in respect of the Settlement are subject to consultation; with representations to be made no later than 10th January 2002, following which the Final settlement figures will be announced in late January. The SSA calculations are based on data available to the Secretary of State as at 3rd October 2001, some of which will change marginally when the Final Settlement is announced.

2.3 The LGA will respond to the consultation, and have already raised three significant issues with the DTLR, one of which relates to shire district councils. The issue in question is that the calculation of grant increases appears to have unfairly disadvantaged a number of districts (including Carlisle) by depriving them of the year on year increase of 2.3% as intended. This is considered further in paragraph 4.5.

3. COUNCIL TAX LIMITATION MEASURES

3.1 Although the Government has repealed the previous capping legislation, it has retained new and wider powers, which can be used selectively against Council's which the Government considers have set Council Tax levels at excessive amounts.

3.2 In addition, the continuation of the Council Tax Benefit Subsidy Limitation (CTBSL) measures, under which Council Tax Benefit Subsidy will be reduced if cumulative Government guidelines are exceeded, remains a powerful control measure. **Ministers are still considering whether CTBSL will operate for 2002/03**, whilst 'recognising that this uncertainty and delay is unwelcome to local government'. An announcement will be made as soon as possible; the Secretary of State has said he hopes to do so at the time of the Local Government White Paper, which he aims to publish before Christmas. As a reminder to Members, the details of the CTBSL scheme are given below.

3.3 For 2001/02, the guideline set by the government for Council Tax increases was 4.5%, or such higher increase as is necessary to give the council an increase in its budget equal to its cash SSA increase. The scheme operates cumulatively by building on previous years guidelines, taking 1997/98 as the base year. The starting point for 2002/03 would be the 2001/02 council tax at guideline (or the budget consistent with this figure), **NOT** the actual Council Tax or budget requirement set by the authority.

- 3.4 The CTBSL scheme was introduced so that authorities making excessive council tax increases should meet part of the escalating benefit bill resulting from their decision. Under the arrangements principal authorities (excluding parishes) lose Benefit Subsidy at a rate that starts at 12.5% and escalates by 12.5% in respect of each 0.5% by which the actual Council Tax increase exceeds the guidance increase. For instance:
- A tax increase of 5.3% compared to a guideline of 4.5%, would mean an authority losing 25% of the increased cost of funding the Benefit Subsidy.
 - A tax increase of 8.5% compared to a guideline of 4.5%, would mean an authority losing all of the increased cost of funding the Benefit Subsidy.
- 3.5 The reduction in Benefit Subsidy payment will in turn require a higher level of tax to be set in order to collect sufficient income to meet the authority's total budget needs.
- 3.6 These arrangements operate through the Collection Fund so that the authority responsible for the penalty being incurred has to reimburse the cost of the subsidy loss to the Billing Authority that is responsible for awarding benefit.

4. SETTLEMENT FOR CARLISLE CITY COUNCIL

- 4.1 To work out each Council's share of the TSS (excluding specific and special grants), the Government calculates a Standard Spending Assessment (SSA), which is each Council's assessed spending need.
- 4.2 Carlisle has received an increase in its SSA of £397,686 (3.7%) from £10,824,144 to £11,221,830. The increase is detailed in **Appendix 3** and can be summarised as follows:

SSA Increase 2001/2 to 2002/3	£
Services covered by EPCS control	390,279
Transfers between City and County (net)	-38,962
Housing Rent Allowances and Administration	6,975
Interest and Capital Financing	37,432
Flood Defence	1,962
TOTAL	397,686

- 4.3 The Table below summarises the effect of the SSA calculation on the provisional settlement for the City Council compared to that for the current year, with the detail shown in **Appendix 4**.

Provisional Settlement 2002/03	2002/03 Provisional Settlement £	2001/02 Actual Settlement £	Overall Gain / Loss (-)	
			£	%
Revenue Support Grant	3,785,000*	4,082,330	-297,330	-7.3
NNDR Distribution	4,285,000	3,841,357	443,643	11.5
Total External Funding	8,070,000	7,923,687	146,313	1.8
Standard Spending Assessment	11,221,830	10,824,144	397,686	3.7
- Council Tax Income for Standard Spending.	3,151,830*	2,900,457	251,373	8.7
- Tax Base	32,389	32,149		
- Council Tax for S. Spending	97.14	90.22	6.92	7.7

- 4.4 *The Council's grant has been reduced and the Council Tax requirement increased by £6,000 as a contribution to protect the worst effect of the settlement for 18 districts whose grant income would otherwise have been below the 'floor'.
- 4.5 As previously mentioned in paragraph 2.3, the LGA has raised the issue of the grant settlement figures for District Councils with the DTLR. For Carlisle, the loss in external grant between the 2.3% intended and the 1.8% actually received equates to a loss of £36,000.
- 4.6 In total, the provisional financial settlement for 2002/03 has resulted in a disappointing settlement for District Council's as a class, and for Carlisle City Council in particular.
- 4.7 In the first forecast report which was considered by the Executive on 18th September, I forecast:
- A likely increase of 4% to £11.26m in the Council's Standard spending Assessment (SSA) coupled with a grant increase of £302,000 to £8.226m.
 - An increase in the implied spending limit for the Council to a minimum of £12.866m, (excluding Parish Precepts) for a council tax increase of £5.22 (3.7%) (Before addressing the impact of the Housing Stock Transfer).

- 4.8 The actual settlement figures have produced an increase of:
- £398,000 (3.7%) from £10.824m to £11.222m in the Council's SSA, a reduction of £38,000 over original projections.
 - £398,000 in the implied spending limit of the Council at SSA to £12,818m.
 - £146,000 in external support grant, a reduction over original forecast of £156,000.
- 4.9 For the City Council, the critical information is the proposed increase in the Council's Standard Spending Assessment (SSA) from £10.824m to £11.222m – an increase of £398,000. This increase in SSA is supported by extra grant of £146,000, but the balance of £252,000 being funded from Council Tax increase, is equivalent to an additional £7.95 (5.7%), an increase of £2.73 over my original forecast of £5.22 (3.7%).

5. IMPLICATIONS FOR CARLISLE CITY COUNCIL BUDGET 2002/03

- 5.1 The implications for the City Council Budget for 2002/03 to 2004/05 are considered in Financial Memo 2001/02 No 120, which is considered elsewhere on the agenda.

6. CONSULTATION

- 6.1 Consultation to date.
None required
- 6.2 Consultation proposed.
None required. The Executive will respond on behalf of the Council.

7. STAFFING/RESOURCES COMMENTS

Not applicable

8. CITY TREASURER'S COMMENTS

Included within report.

9. LEGAL COMMENTS

Not applicable

10. CORPORATE COMMENTS

Not applicable

11. RISK MANAGEMENT ASSESSMENT

11.1 The provisional settlement now received is worse than anticipated. The implications of this are dealt with in Financial Memo 2001/02 No.120, which is considered elsewhere on the agenda.

12. EQUALITY ISSUES

Not applicable

13. ENVIRONMENTAL IMPLICATIONS

Not applicable

14. CRIME AND DISORDER IMPLICATIONS

Not applicable.

15. RECOMMENDATIONS

15.1 The Executive is asked to note the Secretary of State's Provisional Local Government Finance Settlement. The implications of the settlement for Carlisle's budget and indicative Council Tax for 2002/03 is dealt with in a separate report considered elsewhere on this agenda (Financial Memo 2001/02 No. 120)

D THOMAS
City Treasurer

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Carlisle,
5th December 2001
AB/f1210102

GLOSSARY OF TERMS

1. Total Standard Spending (TSS)

The Government starts by deciding how much spending by local government as a whole it is prepared to support through grants. This amount is known as **Total Standard Spending**.

The Government helps meet about $\frac{3}{4}$ of Total Standard Spending by distributing grants and business rates. Together this funding is known as **Aggregate External Finance**. The difference between Total Standard Spending and Aggregated External Finance is the approximate amount local authorities would need to raise through Council Tax if they spent at the level of Total Standard Spending.

2. Specific and Special Grants

The Government covers another part of Total Standard Spending through **specific and special grants**, which fund particular services.

3. The Standard Spending Assessment (SSA)

To work out each Council's share of Total Standard Spending (apart from specific and special grants), the Government calculates a **Standard Spending Assessment**. The total of all Council's Standard Spending Assessments, plus special and specific grants, makes up Total Standard Spending.

When working out Standard Spending Assessments, the Government takes account of the population, social structure and other characteristics of each authority. The Government (in consultation with local government) has developed separate formulas covering the major service areas) i.e. Education, Personal social services, Police, Fire,, Highway maintenance, Environmental, protective and cultural services, Capital financing

4. Business Rates

People who occupy non-domestic properties (such as shops, factories, offices and warehouses) do not pay Council Tax on those properties. Instead they pay business rates – otherwise known as **National Non-Domestic Rates**.

One Council in each area collects business rates and pays them into a national 'pool' which the Government then shares out between all authorities.

5. Revenue Support Grant

Every year the Government provides a **Revenue Support Grant**. The Revenue Support Grant is simply the part of Aggregate External Finance that is not provided from business rates or specific and special grants.

Broadly speaking, the Government distributes this grant so that if every authority set its budget at the level of its Standard Spending Assessment, the Council Tax would be the same for all properties in the same valuation band throughout England.

The amount of Revenue Support Grant a local authority gets is:

- its Standard Spending Assessment; **less**
- the amount it will get from the national pool of business rates; **less**
- the amount it would get if it set its Council Tax at a national standard rate.

LGA Briefing

Provisional Local Government Finance Settlement - 2002/03

Summary

The provisional Local Government Finance Settlement for 2002/03 was issued by the DTLR on 4 December 2001. This briefing provides initial commentary and analysis. Key points of the provisional Settlement are:

- ♦ Headline increase of 7% in Total Standard Spending; 7.4% in Aggregate External Finance (AEF); and an increase of 15.3% in specific grants;
- ♦ Headline increase of 5.4% in aggregate SSAs; compared with 5.7% quoted in SR2000; the difference is mainly due to education and social services transfers;
- ♦ Specific grants, not including the Police Grant, now account for 15.2% of AEF;
- ♦ Damping arrangements (floors and ceilings) continue and are extended to police and fire authorities and shire districts;
- ♦ No changes to Standard Spending Assessment methodology;
- ♦ Data updated in SSAs, including the New Earnings Survey figures used for the Area Cost Adjustment;
- ♦ Responses required by DETR by 10 January 2002.

Total Standard Spending by Service

Total Standard Spending (TSS) is the Government's view of the level of local authority revenue expenditure they are prepared to support through grants. The headline increase in TSS for 2002/03 is 7.0%, the same as in 2001/02.

Table 1 below shows the increase in gross TSS (SSA control totals plus specific grants) at service level.

Table 1: Change in Gross Total Standard Spending 2001/02 to 2002/03

	2002/03 TSS £m	2001/02 TSS £m	Change £m	Change %
Education	26149	24064	2084	8.7
Personal Social Services	11169	10485	684	6.5
Police	7731	7399	333	4.5
Fire	1521	1463	58	4.0
Highway Maintenance	1955	1905	50	2.6
EPCS	9507	9110	397	4.4
Capital Financing	2224	1948	275	14.1
Neighbourhood Renewal Fund	300	200	100	50.0
Total	60555	56573	3982	7.0

Table 2 shows the change in aggregate SSAs - i.e. after the deduction of specific grants from the figures for gross TSS.

Specific grants have increased by 15.3%. PSS specific grants show a substantial increase, including the incorporation of preserved rights in the Promoting Independence Grant.

Table 2: Change in Aggregate Standard Spending Assessments 2001/02 to 2002/03

	2002/03 SSA SR 2000 £m	2002/03 SSA £m	2001/02 SSA £m	Change £m	Change %
Education	23863	22502	21185	1317	6.2
Personal Social Services	9344	9231	8761	470	5.4
Police	3839	3577	3469	108	3.1
Fire	1521	1521	1463	58	4.0
Highway Maintenance	1955	1955	1905	50	2.6
EPCS	8905	8961	8601	360	4.2
Capital Financing	2223	2014	1823	190	10.4
Total	51650	49761	47208	2553	5.4

The overall SSA increase is £216m lower than that announced in Spending Review 2000 in July 2000, reflecting a large number of functional changes. A commentary on the service aspects of tables 1 and 2 is given below.

Education

SSA provision for 2002/03 is as announced in SR2000, adjusted for the post-16 transfer of £1.356bn. This accounts for the like-for-like increase of 6.2% rather than 6.0% quoted in SR2000.

However the DTLR figures do not take into account the incorporation of the £52m Education Budget Support Grant paid in 2001/02 which has been discontinued and the transfer of £5m for the Leadership Programme for Serving Heads. If these transfers are taken into account, the effective SSA increase is 5.7%, as quoted in the DfES letter to CEOs dated 26 October 2001.

Education specific grants total £3649m. This includes £1712m for the Standards Fund. The Government has confirmed that the transfer for post-16 is £1.356bn, despite the fact that the increase in 6th form pupil numbers is not as great as forecast nationally.

Personal Social Services

SSA provision is £9231m compared with £9344 announced in SR2000. This reflects a range of transfers. In addition to the transfer of guardians ad litem to CAFCASS, included in last year's settlement, there has been a further transfer to the National Care Standards Council of £87m. (This is a reduction from the £91.6m on which the DH originally consulted).

Once these changes are adjusted for, the increase remains 5.4%.

The total of specific grants is £1938m, as increase of 117% over the figure in 2001/02. Some of the main reasons for this large increase are:

- £614m is provided in the form of a new Preserved Rights grant, in recognition of the fact that councils are taking over responsibility for funding the care of people who entered residential care before 1 April 1993. Of this £528m is a transfer from the Department of Work and Pensions and £86 million is new money;
- The Children's Services Grant has increased from £291.8m in 2001/02 to £452m in 2002/03. This reflects the full year effects of the care leavers transfer and includes an additional £13.5m transfer from the DWP to reflect changes in the benefit arrangements for care leavers;
- There is a new £50m Performance Fund for intermediate care.

The Department of Health is sending full details of PSS funding to local authorities in Local Authority Social Services Letter LASSL(2001) 13. This makes reference to the fact that DH is minded to differentiate in the conditions for these grants next year; with the best performing councils getting targeted grants with no conditions attached.

Fire and Highway Maintenance

SSA provision for these services remain in line with the figures announced in SR2000.

Police

SSA has increased by 3.1%, compared with TSS increase of 4.5% (£333m). This reflects increases in earmarked funding of £141.3m, including an increase of £75m in the Crime Fighting Fund grant and a grant of £109m for the Airwaves Communication Project. An APA briefing is available at <http://www.apa.police.uk>

Environmental, Protective and Cultural Services

The EPCS block has increased by 4.2%. The District block has increased by 4.2% and the County block by 4.3%.

The figure in SR2000 for the EPCS increase in 2002/03 was 4.4%. The adjustment reflects additions for concessionary fares, regional planning conferences and homelessness, as well as an adjustment for the transfer of hostels to the National Probation Service, which were contained in the 2001/02 Settlement. There is a range of additional small adjustments, amounting to £15.3m. The largest of these is £6m to reflect the cost of implementing refrigerator disposal regulations.

Capital Financing

The figures for capital financing are as in SR2000 (£2223.831m), reduced by £210m for PFI credits. The elements for interest receipts and interest on capital receipts are £472m and £372m respectively, leaving £2812.8m to be distributed as the debt charges element. Further details of how these figures are worked out are contained in the DTLR's letter to the LGA, at <http://www.lga.gov.uk/lga/finance/rsg2002/sfi1.pdf>

The Financing of Total Standard Spending

Table 3 provides a summary of central government support for revenue expenditure for 2002/03 and how that support has changed since 2001/02

Table 3: Financing of Total Standard Spending 2002/03

	£ billion	% of TSS	% Change from 2001/02
Total Standard Spending	60.555	100.0	7.0
Specific Grants	10.794	17.8	15.3
RSG	19.904	32.9	1.9
Other Grants	0.007	0.0	-30.0
Government Grants	30.705	50.7	6.2
NNDR	16.626	27.5	9.8
AEF	47.331	78.2	7.4
Standard Council Tax Income	13.224	21.8	5.6

Note: Change is measured from 2001/02 adjusted TSS and adjusted AEF

Income from **national non-domestic rates** (NNDR) is assumed to increase by 9.8%. The proposed poundage (the multiplier) for England for 2002/03 will be 43.7p. In 2001/02 it was 43.0p.

The income to be raised from the **council tax** is assumed to increase by 5.6%, compared with 6.0% in 2001/02. However, because of the growth in the taxbase, the council tax for standard spending increases by 5.2%, from £730.95p to £768.63p for Band D properties.

Standard Spending Assessments

A spreadsheet showing changes in SSA will be made available on the LGA website

Methodology change

As announced by the Government in June 2001, there are no methodology changes this year.

Data changes

All data has been updated, including that relating to the New Earnings Survey, used for the calculation of the labour element of the area cost adjustment. This is based on revised New Earnings Survey 2000 figures.

The effect of the revised data is to give an ACA pattern more like that in 2001/02 than the uncorrected 2000 figures, which were released in summer 2001. ACA factors are fractionally up on the 2001/02 figures, whereas the earlier figures had suggested a substantial fall in ACA, particularly for Inner London.

The Government has decided to use road length data as measured by GIS for principal roads only. For other roads, 2001/02 data will be used. The Government intend to introduce GIS data in 2003/04.

Damping Arrangements - Floors and Ceilings

The government propose that the system of floors and ceilings for damping grant changes be extended to cover fire and police authorities as well as shire districts.

For **Education and Social Services authorities** the floor is 4% and the ceiling 7%. £41m of additional resources have been provided within RSG, to prevent authorities 'in the middle' having their grant scaled down to pay for the cost of the floor. 32 authorities benefit from the floor and 11 have their grant limited by the ceiling.

For **Police and fire authorities and the GLA** the floor is 2.3% and the ceiling 4%. £5m of additional resources have been provided within RSG for authorities 'in the middle' but their RSG increase is still scaled down by 6% to pay for the floor. 19 authorities benefit from the floor and one is limited by the ceiling.

For **shire districts** the floor is 2.3% and the ceiling 10%. Authorities 'in the middle' have their RSG increase scaled down by 7.5% to pay for the floor. 18 districts benefit from the floor and one is limited by the ceiling.

The floor and ceiling arrangement has been designed so that authorities are able to benefit from the full increase in grant arising from increases in their debt charges SSA.

The LGA is in favour of floors, that is setting a minimum level of grant. However we are 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. The Government have contributed £41m to mitigate the effect of floors on 'middle' authorities. Another £31m would have paid for the scheme in full.

Council Tax Benefit Subsidy Limitation

Nothing was said about CTBSL in the statement.

Further information

For further information please contact Mike Heiser or Stephen Lord in the LGA Finance team on 020 7664 3265/3220.

APPENDIX 3

PROVISIONAL STANDARD SPENDING ASSESSMENT 2002/2003 (As at 4th December 2001)

	<u>Provisional 2002/2003</u>			<u>Actual 2001/2002</u>			
1. Resident Population	101,944			102,317			
2. Enhanced Population	105,022.767123			105,416.315068			
3. Scaling Factor (mainly)	0.955769			0.962855			
	Amount per Head £	Index Factor	SSA	Amount per Head £	Index Factor	SSA £	Gain/(Loss -) £
<u>Basis of SSA:</u>							
Basic for EPC Services	93.95	1	9,430,474	90.12	1	9,147,236	283,237
Density	4.34	3.88938	1,644,693	4.17	3.90361	1,603,656	41,037
Sparsity	37.9	0.3933	1,452,372	36.36	0.3933	1,408,823	43,548
District Services (index i)	2.11	0.5692	117,021	2.02	0.342	68,059	48,961
District Services (index ii)	4.42	-2.0366	- 877,087	4.24	-2.0363	- 850,582	- 26,505
			11,767,471			11,377,192	390,279
Transfer to Cumbria County Council		11%	- 1,294,423		11%	- 1,251,491	- 42,932
District Level EPC Services			10,473,049			10,125,701	347,347
Transfer from Cumbria CC			104,183			100,214	3,969
Rent Allowances			375,753			375,342	411
Housing Benefit Admin			133,210			126,646	6,564
Flood Defense			24,590			22,628	1,962
Total EPC Services			11,110,785			10,750,531	360,253
Capital Financing (Debt Charges)			847,373			845,725	1,648
Interest Receipts - Balances		-	276,606		-	323,512	46,906
Interest Receipts - Capital Receipts		-	459,722		-	448,600	- 11,122
SSA			11,221,830			10,824,144	397,686
Overall Gain £			397,686				
Overall Gain %			3.7				

PROVISIONAL SETTLEMENT - CARLISLE CITY COUNCIL 2002-2003

APPENDIX 4

	2002/2003 PROVISIONAL SETTLEMENT	2001/2002 FINAL SETTLEMENT		
Population	101,944	102,317		
RSG Tax Base	32,389	32,149		
Local Tax Base	31,700	31,643		
District Level Tax for Standard Spending (£)	97.14	90.22		
Standard Spending Assessment (£000)	11,222	10,824		
			GAIN / LOSS(-)	
	<u>£000's</u>	<u>£000's</u>	<u>£000'S</u>	<u>%</u>
Revenue Support Grant	3,785	4,082	-297	-7.3
NNDR Distribution	4,285	3,842	443	11.5
Total External Funding (AEF)	8,070	7,924	146	1.8
Council Tax for Standard Spending	3,152	2,900	252	8.7
Standard Spending Assessment	<u>11,222</u>	<u>10,824</u>	<u>398</u>	<u>3.7</u>
City Council Budget Requirement:				
Current 2001/02 City Council Budget Requirement	12,420	11,901		
Implied Spending Limit (at SSA increase)	12,818	12,275		
Implied Spending Limit (at assumed max 4.5% increase)	13,541	12,958		
Council Tax (Notional Band D):				
		£	% incr	
at SSA	97.14	90.22	7.7	
at Implied Limit (SSA Increase)	146.59	135.34	8.3	
at Maximum (assumed 4.5% Increase)	168.92	156.58	7.9	