

LOCAL GOVERNMENT FINANCE SETTLEMENT

1. With permission, Mr Speaker, I should like to make a statement about local authority revenue finance for England in 2006-07 and 2007-08.

Three year settlements

2. Sensible planning for service delivery needs a stable and predictable funding environment. Freezes on grant distribution changes have helped. But the time has come to go further, and give councils firm forward financial allocations. There is no reason why councils cannot now provide similar certainty for their local taxpayers when setting their council tax for 2006/07, by providing an indicative council tax for 2007/08.
3. To give councils as complete a picture as possible of forward financial allocations, I am announcing today for the two years 2006-07 and 2007-08 allocations of formula grant and grant for the Supporting People programme. The Government will also publish by local authority a table of allocations of all the major revenue grants that can be allocated in advance, including the Neighbourhood Renewal Fund. By the end of this week we expect that the vast majority of individual specific grant allocations will be announced to local authorities. The only grants that cannot be announced at this stage will either be performance-led or data-driven in their nature.
4. My rt Hon Friend, the Minister for Schools, will shortly announce the provisional allocations to authorities of Dedicated Schools Grant; hon Members should bear in mind that these allocations need to be added to those I am announcing today to give a fuller picture of the above inflation funding going to authorities with education and social services responsibilities.
5. With the next Spending review period we will move to give 3 years of grant allocations to local government.

Grant distribution system

6. It is also high time we overhauled the system we use to distribute the formula grant. For over 20 years successive Governments have used a system based on notional figures for spending and local taxation. In the 1990s, the Government described the old Standard Spending Assessments as "... intended to represent the amount which it would be appropriate for the receiving authority to calculate as its budget requirement"
7. But we no longer take that view. The formula is simply a means of distributing Government grant. Notional spending and taxation figures are nonetheless still being misunderstood and misused for a variety of purposes, such as spending or tax targets, for which they were neither intended nor suitable.

8. Such notional figures get in the way of sensible budget setting - because councils treat them as targets, or going rates - and they get in the way of a more mature relationship with local government on doing business together. What I am proposing is a system that deals in an honest currency - cash grant - not fanciful assumptions about spending.
9. I accept that most responses to consultation were against our consultation proposal along these lines. However, the arguments supporting this position were not strong. Many stated that the new system would be more complex or use more judgement than the existing system; neither is the case.
10. The new system will retain the strengths of the old. It will continue to take account of the relative needs of an area, and the relative ability of councils' areas to raise council tax. There will be an element of grant that is distributed on a per head basis; and there will be a grant floor.

Grant totals

11. Total revenue grants to English local authorities will be £62.1 billion in 2006/07 and £65.1 billion in 2007/08, increases over the previous year of 4.5% and 5.0%, respectively. Part of that increase is dedicated funding for schools, leaving formula grant for other services that will total £24.8 billion in 2006/07 and £25.6 billion in 2007/08, increases of 3.1% and 3.8% respectively.
12. This means that, by 2007/08, the increase in Government grant for local services since taking office will be 39% in real terms.

Changes in grant distribution

13. We have been working with local government over the last three years on possible changes to grant distribution formulae. We consulted publicly over the summer and I am publishing the summary of consultation responses today. Following that consultation, we propose a number of changes. The main drivers behind the changes I propose are: updating, in particular the use of 2001 census data in place of that from the 1991 census; and making the system more forward looking by using projections of population and council tax base; and adapting to policy change.
14. The new formulae for Personal Social Services for children and younger adults are each based on extensive research and have a solid evidence base. This makes it clear that there will need to be substantial change to reflect the evidence on service provision and the very different social and demographic environment of the 2001 Census.
15. The grant system also takes account of councils' widely varying ability to raise council tax, depending on the council tax valuations of housing in

their area. We propose to increase this "resource equalisation" because to do so will make the system fairer for those authorities with relatively low ability to raise council tax locally.

16. I propose to adjust the grant distribution system to reflect the introduction of free off peak bus travel for the over 60s and the disabled from next April. I shall do so by increasing in the district level Environmental, Protective and Cultural Services (EPCS) formula the weightings given to factors that reflect support for the disabled and the needs of areas where take-up is likely to be highest.

Damping

17. Grant floors - minimum guaranteed increase from one year to the next - are a permanent part of the system. Given the importance we attach to stability and predictability of grant, we shall be phasing in the larger changes this year with more than usual care. The changes on children's social services, and younger adults' social services, will be phased in with specific formula floors. On top of that, we propose grant floors for groups of authorities as follows.

18. For 2006/07, the floors will be:

- Authorities with education and social services responsibilities, 2.0% - this figure excludes the increase in schools funding, which will give all such authorities above inflation increases in grant
- Police authorities, 3.2%
- Fire and rescue authorities, 1.5% - this figure masks the help we are giving by phasing in recovery of the modernisation grant paid in 2004/05
- Shire district authorities, 3.0%.

19. For 2007/08, the floors will be:

- Authorities with education and social services responsibilities, 2.7%
- Police authorities, 3.7%
- Fire and rescue authorities, 2.7%
- Shire district authorities, 2.7%.

20. Within each group of authorities, those above the floor will have their grant increase scaled back to pay for the floor. The floor levels I propose will mean that there will be a fairly narrow range of grant increases in 2006/07 with police authorities in particular all receiving approximately the average increase. For 2007/08, all authorities receive a grant increase at least in line with inflation and more formula change will come through for most authorities.

Supporting People

21. I would now like to turn to the Supporting People programme, introduced in 2003 and successfully providing support to over 1.2 million vulnerable people. I am pleased to announce a two year settlement for this programme. The Supporting People grant allocation for 2006/07 will be £1.685 billion, this is a significant investment and I have also announced guaranteed minimum allocations for 2007/08 to enable authorities to plan their expenditure. Further, I am pleased to announce that authorities will be able to roll forward any savings from 2005/06 to 2006/07 in order to re-invest in the programme. This announcement brings stability to the sector and will enable authorities to work with support providers and voluntary sector and community groups to plan for the future.
22. Building on the success of Supporting People I recently launched a consultation on how the programme can be further improved and following this consultation I will announce next summer full allocations for 2007/08.

Relieving spending pressures

23. This settlement is good news for councils and tax payers. We have been working closely with local authorities this year to identify the extent of the pressures they face up to 2007/08, and consider the actions necessary to mitigate those pressures. I am pleased to announce extra formula grant for the two years over and above previous plans of £305m and £508m for local government. We have also agreed with local government that we will jointly move forward on a number of fronts aimed at addressing the real pressures council face.
24. This includes a continued commitment to the new burdens procedure, working with local government to assess the costs and savings of implementing new polices, and funding the net costs; we will be strengthening the mechanisms to enforce the new burdens procedure. Further, I announced to this House on Friday agreement that the cost pressures arising from the temporary reinstatement of the 85 year rule in the local government pension scheme will not fall on taxpayers.
25. We are also aware of authorities' concerns over the costs of the new licensing Scheme. I am pleased that we have been able to reassure the Local Government Association on this issue. My honourable Friend, the Minister for Creative Industries and Tourism, has today re-affirmed the Government's commitment that costs to local authorities from meeting their requirements under the new Licensing Act will be fully met by fees within the national fee regime, provided they are incurred legitimately and efficiently.
26. Local authorities will also benefit from the extra money coming in to local authority budgets through LABGI (the Local Authority Business Growth Incentive scheme); and from the new top up grants for police and fire &

rescue pensions, which will help budget planning and ultimately, the council tax payer.

Budgets and Council tax

27. We have provided a stable and predictable funding basis for local services. We expect local Government to respond positively as far as council tax is concerned.
28. Therefore we expect to see average council tax increases in each of the next two years of less than 5%. There is, following today's announcement, no excuse for excessive increases.
29. Local government should be under no illusions; if there are excessive increase, we will take capping action - as we have done over the last two years.
30. I am also announcing consultation on Alternative Notional Amounts. The draft Alternative Notional Amounts report sets out the proposed notional adjustments to local authorities' 2005/06 budget requirements to help enable like-for-like comparisons with 2006/07 budget requirements for capping purposes. This is being issued today for consultation to ensure that authorities know in advance of setting their budgets, the budget requirement figure for 2005/06 that the Government will use when considering using its capping powers.

Conclusion

31. Mr Speaker, the Government have provided another significant boost to local authorities with a financial package that is stable, predictable, and adequate to meet the pressures local authorities face over the next two years while keeping council tax increases down to acceptable levels.
32. I have placed copies of tables giving grant allocations and supporting documentation in the Vote Office and the Library of the House, and full details are being made available for local authorities on our website. I look forward to receiving consultation responses; and commend these proposals to the House.