

# Provisional Local Government Finance Settlement - 2003/04

## 5 December 2002

### 1. Summary

The provisional Local Government Finance Settlement for 2003/04 was issued by ODPM on 5<sup>th</sup> December 2002. This briefing provides initial commentary and analysis.

Key points of the provisional Settlement are:

- Headline increase of 8% in Aggregate External Finance; increase of 16.5% in specific and special grants; and increase of 5.9% in formula grant (Revenue Support Grant plus non-domestic rates);
- Increase of 7.1% in Total Assumed Spending (formerly Total Standard Spending; 5.5% in aggregate Formula Spending Shares (formerly SSAs); compared with 7.3% quoted in SR2002;
- Damping arrangements (floors and ceilings) as follows: 3.5% floor and 8% ceiling for authorities with education and social services responsibilities, 3% floor and 12.5% ceiling for shire districts, 3% floor and 4.9% ceiling for police and fire authorities and the GLA;
- Major formula changes include resource equalisation, a new formula for education and a new method of calculating the area cost adjustment;
- Responses required by ODPM by 14 January 2003.

### 2. Total Assumed Spending by Service

Total Assumed Spending (formerly Total Standard Spending) is the Government's view of the level of local authority revenue expenditure they are prepared to support through grants. The headline increase in TAS for 2003/04 is 7.1%, compared with 7% in 2002/03.

However the Government have implemented one of the Resource Equalisation options on which they consulted. This increases formula provision to bring it more into line with what authorities are actually spending in 02/03. Thus TAS has been increased by £4,014m, when compared with TSS, along the lines of option RE2 in the Formula Grant Consultation document. This does not lead to any more grant to authorities, as assumed council tax has risen to cover the gap, from £769 to £1001.

Table 1 below shows how TAS compares with original and adjusted TSS for 2002/03. The sections on the different services explain differences from the Spending Review 2002 provision.

Table 1: From TSS to TAS 2002/03 to 2003/04

	2002/03 TSS Settlement £m	2002/03 TSS adjusted £m	2003/04 TSS £m	Change over adjusted %	Uplift due to Resource equalisation £m	2003/04 TAS £m
Education	26,184	26,551	28,543	7.5%	0	28,543
Personal Social Services	11,169	10,925	11,871	8.7%	1,100	12,971
Police	7,741	7,760	8,249	6.3%	569	8,818
Fire	1,521	1,521	1,583	4.0%	195	1,778
Highway Maintenance	1,955	1,945	1,994	2.6%	-40	1,954
EPCS	9,212	9,381	9,912	5.7%	2,230	12,142
Capital Financing	2,224	2,224	2,648	19.1%	-40	2,608
Unallocated	300	329	456	38.4%	0	456
<b>Total</b>	<b>60,306</b>	<b>60,635</b>	<b>65,255</b>	<b>7.6%</b>	<b>4,014</b>	<b>69,269</b>

Table 2 shows the change in Total Formula Spending (formerly total SSAs) - i.e. after the deduction of specific grants.

**Table 2: From SSA to FSS 2002/03 to 2003/04**

	2002/03 Total SSAs Settlement £m	2002/03 Total SSAs adjusted £m	2003/04 SSA £m	Change over adjusted %	Uplift due to Resource equalisation £m	2003/04 FSS £m
Education	22,503	23,484	25,015	6.5%	0	25,015
Personal Social Services	9,231	9,481	10,071	6.2%	1,100	11,171
Police	3,577	3,577	3,583	0.1%	569	4,152
Fire	1,521	1,521	1,583	4.0%	195	1,778
Highway Maintenance	1,955	1,945	1,994	2.6%	-40	1,954
EPCS	8,691	8,862	9,339	5.4%	2,230	11,569
Capital Financing	2,014	2,014	2,308	14.6%	-40	2,268
<b>Total</b>	<b>49,492</b>	<b>50,883</b>	<b>53,893</b>	<b>5.9%</b>	<b>4,014</b>	<b>57,908</b>

### Education

FSS provision for 2003/04 is as announced in Stephen Bishop's letter dated 23<sup>rd</sup> October 2002. Compared with SR2002 there are increases of £586m to reflect the increase of employers' pensions contributions to 13.1% and £500m of ring-fenced grants are transferred to general grant funding (consisting chiefly of nursery grant and class sizes grant).

This leads to an overall increase of 6.5% rather than 6.3% quoted in SR2002.

Total specific grants are projected to be £3,528m compared with £3,681m in 2002/03. Grants within the Standards Fund will be £1153m compared with £1588m in 2003/03. As announced in the letter referred to above, four Standards Fund grants will not be paid in 2003/04; these relate to School Improvement, school inclusion and pupil support, induction of newly qualified teachers and performance management and threshold assessment. In addition, Excellence in Cities will be paid as a specific formula grant, which means it will not be ring-fenced at local authority level.

Further details of education specific grants are expected to be given on Monday 9<sup>th</sup> December in a statement by Education Secretary Charles Clarke.

### Personal Social Services

Total FSS provision is increased by £1,100 to reflect resource equalisation. Net of this, provision is £10,071m compared with £10,023m announced in SR2002. This is a net figure reflecting the addition of £378m for the transfer of Promoting Independence and Residential Allowances grants to general grant funding and the subtraction of £330m for a transfer out of general grant to pay for free nursing care.

Once these changes are adjusted for, the increase is 6.2% rather than the 6.9% in SR2002. Overall TAS increase (net of resource equalisation) is 8.7%.

The total of specific and special grants is is £1800m, compared with £1938m, a decrease of 7% over the figure in 2002/03. This reflects the transfer of specific to general grant funding mentioned above but also includes increases in grants of £356m, including an increase of £106m in the

Childrens' Services Grant and a new £170m grant for access and systems capacity.

The Department of Health is sending full details of PSS funding to local authorities in Local Authority Social Services Letter LASSL(2002) 11.

#### **Police**

Total FSS provision has increased by £575m. However £569m of this is due to resource equalisation leaving only £6m. The increase of SSA of 11.7% announced in SR2002 has been transferred to police grant, which has risen by 7.1%, and to a range of other specific grants, such as the Crime Fighting Fund and Basic Command units, as well as provision for counter terrorism and the Airwaves Communication Project. The rise in police specific and special grants, including the main police grant, is 11.6%.

An APA press release will be available at <http://www.apa.police.uk>

#### **Fire**

Total FSS has increased by £195m from the figures in SR2002. This all reflects resource equalisation. There are no additional resources other than that.

#### **Highways Maintenance**

Total FSS has decreased by £51m when compared with the provision in SR2002. £40m of this is due to resource equalisation, reflecting the fact that authorities have traditionally spent under their SSA for this service. The balance is due to a transfer to GLA grant in respect of GLA functions formerly funded by this block.

#### **Environmental, Protective and Cultural Services**

The EPCS block is £11,569m compared with SR2002 provision of £9,435m. £2,230m of this is due to resource equalisation; £1,200m for the District Services block and £1,030m for the County Services block.

Net of resource equalisation the figure for the overall EPCS increase is 5.4%, close to the 5.3% of SR2002.

Compared with SR2002, where an extra £82m was put into EPCS, there is a further £83m there is new amounts in FSS in respect of concessionary fares (£50m), abandoned vehicles (£21m) and a range of smaller transfers.

Council Tax Benefit administration (formerly in the District Block) and Housing benefit administration (formerly a block by itself within EPCS) have been transferred out of FSS to a new grant covering both. Other transfers are for Supporting People (£19m) and Regional Planning conferences (£6m).

#### **Capital Financing**

The figures for capital financing are as in SR2002 (£2648m), reduced by £40m for resource equalisation and a further £340m for PFI credits. The elements for interest receipts and interest on capital receipts are £367m and £370m respectively, leaving £3005m to be distributed as the debt charges element.

Further details of how these figures are worked out are contained in the letter from ODPM to the LGA, at <http://www.lga.gov.uk/lga/finance/rsg2002/sfi1.pdf>

### **3. The Financing of Total Assumed Spending**

Table 3 provides a summary of central government support for revenue expenditure for 2003/04 and how that support has changed since 2002/03

**Table 3: Financing of Total Assumed Spending 2003/04**

	£ billion	% of TAS	% Change from 2002/03 adjusted
<b>Total Assumed Spending</b>	69.269	100.0	7.1
Specific Grants	11.362	16.4	16.5
RSG	24.213	35.0	15.2
Government Grants	35.575	51.4	15.6
NNDR	15.600	22.5	-6.2
<b>AEF for receiving authorities</b>	51.175	73.9	8.0
<b>Assumed Council Tax yield</b>	18.094	26.1	4.4

Note: Change is measured from 2002/03 adjusted TSS and adjusted AEF

Income from **national non-domestic rates** (NNDR) is assumed to increase by 1.7% in line with the September 2002 Retail Price Index. The proposed poundage (the multiplier) for England for 2003/04 will be 44.4p. In 2001/02 it was 43.7p.

As noted above **council tax** yield is assumed to increase by 4.4% on an adjusted basis. On a non-adjusted basis it increases by 30%; this reflects the gap between assumed and actual council taxes in 2002/03 which is closed by the resource equalisation adjustments.

Council Tax at Standard Spending in 2002/03 was £769. Actual average council tax was £976. ODPM's assumed council tax for 03/04 is £1,036, an increase of 6.1% on this figure, although it is an increase of 3.5% on its assumed 02/03 figure, after resource equalisation, which is £1001.

#### 4. Ring-fenced grants

The annex to the Freedoms and Flexibilities paper issued on 26<sup>th</sup> November proposes to transfer a number of ring-fenced grants into general grant from 2003/04.

ODPM propose a new classification for grants, distinguishing between grants that attempt to control spending by local authorities (ring-fenced and targeted grants) and those that do not (specific formula grant and general formula grant). PFI grant, Neighbourhood Renewal Grant and Performance Reward Grant have been reclassified as specific formula grants

According to this classification the level of ring-fencing in 2002/03 is 12.4%; it is estimated that it will be under 10% by 2005/06.

The total of all specific and special grants has risen by nearly 8% when compared with settlement figures for 2002/03, but compared with 2002/03 adjusted figures it has risen by 16.5%.

The LGA had urged that the level of ring-fencing be cut to 4.5%; the level it was at in 1997/98.

ODPM have not yet released details of how specific and special grants for 2003/04 fit into the new categories as some other government departments have not yet finalised their allocations. Some of the increase of 16.5% in special and specific grants may be non-ringfenced.

#### 5. Formula Spending Shares (formerly Standard Spending Assessments) changes

Many of the methodology changes to FSS are on the lines consulted upon in the consultation paper on Formula Grant Distribution issued in July.

All formulae are in the following form

*(Basic element for the main client group, the same for all authorities + top up for deprivation + top up for other costs) x Area Cost Adjustment*

The main methodology changes, block by block, are set out below.

## **Education**

The new formula follows the lines discussed in the consultation document and the Education Funding Strategy Group report. It contains separate blocks to reflect school and LEA responsibilities. The formula for the LEA and High Cost Pupils block follows the Formula Grant consultation document, with the exception that, as already announced, there will be a separate block for Youth and Community services.

The formulae for the Primary and Secondary and Under 5 blocks contain elements to reflect

- a basic entitlement of £2659 (secondary), £2006 (primary) and £2549 (Under 5s);
- an element to reflect additional educational needs; this consists of factors to reflect EAL (for the Under 5s and Primary blocks) and ethnicity (for the Secondary block);
- an element to reflect deprivation consisting of income support and working families tax credit;
- an area cost adjustment calculated on a new methodology, explained below.

The weights for the elements in the Schools Block are set by ministerial judgement, informed by work by PWC on the incidence and costs of Additional Educational Needs. The weights for the existing SSA formula used in 2003/03 were set by examining past spending patterns. This technique is still used for setting the weights in the LEA and Youth and Community Blocks but the expenditure data base has been updated.

Floors and ceilings have been applied to Education FSS to ensure that no authority has a rise of more than 3.2% and less than 7%. An extra £100m which was put in by Spending Review 2002 is being used to support this.

## **Personal Social Services**

### **Children**

New methodology for calculating foster cost adjustment, along the lines of option SSC3 in the consultation document. This uses a new foster care adjustment, as recommended by the Thomas Coram Institute in their work for DoH with two factors: social class and ethnicity.

### **Younger Adults**

The new formula retains regression analysis of spending patterns but update expenditure data from 1990/91 to 2000/01, but reduces the existing 12 indicators to three: income support, single people living away from families and those living in public sector flats, along the lines of option SSO1.

### **Elderly**

New single block structure containing elements for both elderly domiciliary and elderly residential, along the line recommended by the University of Kent, along the lines of option SSE2.

### **Police**

Option based on work carried out by the Allocation Formula Working Group, along the lines of option POL2. This reduces the establishment factor to zero and updates the activity analysis used to set weights.

### **Fire**

The formula still relies on an analysis of past spending to set weights, but updates the figures used from 1990/91 to 2000/01. The fire calls indicator, seen as a perverse incentive is replaced by a new 'fire risk' index to replace the fire calls indicator, based on correlation of deprivation measures against fire calls; along the lines of option FIR2. Community safety has been put back into the main formula.

## Highways Maintenance

The formula is along the lines of option HM1, in that it will consist of a basic amount per kilometre; with top-ups for traffic flow, winter maintenance and pay costs, much as at present, although the current threshold for traffic flows is abolished. Weights are still be set by examination of past spending patterns, but figures have been updated from 1990/91 to 1998/99, the latest available. The winter maintenance component is based on weighted road lengths and winter maintenance indicators only.

## Environmental, Protective and Cultural Services (EPCS)

EPCS will continue to have two main sub-blocks for upper tier ('County') and lower tier ('District') services, although control totals have been adjusted to reflect the abolition of the 'concurrent services adjustment. Weights are set by judgement based on an updated expenditure analysis using data from years 1999-2002

The option chosen includes elements for resident population, deprivation (income support, unemployment, incapacity benefit, severe disablement allowance and ethnicity), density and top-ups for day visitors, commuters, sparsity and ethnicity, along the lines of EPC3 but with a higher weight for unit costs.

There is a new block for fixed costs for authorities which get district or county services FSS, along the lines of option FC1. The HB Administration block has been removed to DWP grant

## Area Cost Adjustment

The option chosen is along the lines of option ACA2. It is based on three years of earnings data rather than one as at present, in order to reduce volatility in year on year changes.

It is a variant of the methodology recommended by the Elliott Review of 1996, and is similar to the method used in the NHS, taking more detailed account of differences in the structure of the labour market between authorities and incorporating a 'lower limit'.

The ACA is extended so that authorities in Cambridgeshire, Northamptonshire, Warwickshire, Gloucestershire, Avon and Wiltshire are brought into the ACA. Outer London is divided into two areas;

## Data changes

The mid-year population estimates based on the 2001 census are incorporated in formula spending shares.

## 6. 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. This is much as last year except that the adjustment to reflect capital investment has been changed to reflect credit approvals rather than debt charges

For **Education and Social Services authorities** the floor is 3.5% and the ceiling 8%. 27 authorities benefit from the floor and 38 have their grant limited by the ceiling. The remaining 85 authorities have their grant increase scaled down by 4.6% to help pay for the cost of the floor.

For **Police and fire authorities and the GLA** the floor is 3% and the ceiling 4.9%. 5 authorities 'in the middle' have their RSG increase scaled down by 5.4% to pay for the floor. 22 authorities benefit from the floor and 17 are limited by the ceiling.

For **shire districts** the floor is 3% and the ceiling 12.5%. 77 authorities 'in the middle' have their RSG increase scaled down by 7.5% to pay for the floor. 75 districts benefit from the floor and 86 are 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 table below summarises the position compared with 2002/03

	Education / Social Services	Shire Districts	Fire / Police / GLA
2003/04			
Floor	3.5%	3%	3%
Ceiling	8%	12.5%	4.9%
Middle	-4.6%	-1.3%	-5.4%
2002/03			
Floor	4%	2.3%	2.3%
Ceiling	7%	10%	4%
Middle	-	-7.4%	-5.9%

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.

#### 7. Changes in formula grant by class of authority and by region

The table overleaf shows changes in formula grant (revenue support grant plus non-domestic rates) by type of authority and by region. By types of authority changes range from 3.6% (shire police authorities) to 7.6% shire districts. In terms of regions, increases range from 4.5% (South East) to 7.1% (East and West Midlands).

Local Authority	% Change in formula grant - after application of floors and ceilings
England	5.9%
London area	5.3%
Metropolitan areas	6.8%
Shire areas	5.7%
Isles of Scilly	8.0%
Inner London boroughs incl. City	5.9%
Outer London boroughs	5.1%
London boroughs	5.4%
GLA - all functions	4.9%
Metropolitan districts	7.2%
Metropolitan fire authorities	4.0%
Metropolitan police authorities	4.9%
Shire unitary authorities	6.3%
Shire counties	5.7%
Shire districts	7.6%
Shire police authorities	3.6%
South West	5.8%

South East	4.5%
London	5.3%
Eastern	5.4%
East Midlands	7.1%
West Midlands	7.1%
Yorkshire and Humberside	6.3%
North East	6.0%
North West	6.6%

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LGA Local Government Finance Team, 5 December 2002