

Provisional Settlement 2011-12

Analysis and Implications for Cherwell District Council

1 BACKGROUND

- 1.1 The settlement provides the provisional amount of general grant that will be received by the Council in 2011-12 and details of the indicative funding for 2012-13. This differs from previous years where a 3 year settlement has been announced and is also at odds to the period of the 4 year CSR10 period.
- 1.2 In announcing the settlement the Government confirmed that there would be a fundamental review of Local Government Finance that would commence in the New Year. A second two year settlement is then expected to follow in 2012 for the period 2013-14 and 2014-15 for which Government intend to adopt a new distributional system.
- 1.3 The announcement related to the 'provisional' settlement and is now the subject of a consultation process which ends on the 17 January 2011.

2 NATIONAL HEADLINES

- 2.1 Central government Formula Grant funding for councils (including Revenue Support Grant and pooled Business Rates, but excluding Police Grant and the Metropolitan Police Special Payment) falls by 12.1% in 2011-12 to £24.9bn.
- 2.2 The announcement focussed on a new term to describe the settlement which is the impact on a Council's 'spending power'. This should not be confused with formula grant reduction.
- 2.3 Cuts in Formula Grant have been limited to produce a maximum 8.9% reduction in "revenue spending power" for either 2011-12 or 2012-13. The Government says that the average reduction in 'spending power' is 4.4% in 2011-12.
- 2.4 In addition to formula grant, the government will pay a transition grant of £85m to those authorities worst hit by the settlement. The transitional grant is not applicable to Cherwell but will be paid to 37 authorities in 2011-12. This grant will ensure that no authority has a reduction in 'spending power' of no more than -8.9%.

3 IMPLICATIONS FOR CHERWELL DISTRICT COUNCIL

Spending Power

- 3.1 The following table demonstrates how the reduction quoted by the government of 6.22% is calculated:

Spending Power Calculation	2010-11 £000	2011-12 £000	Movement	%
Council Tax requirement	6,189	6,189	-	0.00%
Parish Precepts	3,993	3,993	-	0.00%
<i>Adjusted Formula Grant (impact of concessionary fares transfer)</i>	9,948	8,575	1,373	13.80%
Housing and Council Tax Admin Grant	1,027	943	84	8.18%
Preventing Homelessness Grant	86	120	(34)	-39.53%
Council tax Freeze Grant	-	155	(155)	
Cohesion Grant	57	-	57	
Total Revenue Spending Power	21,300	19,975	1,325	6.22%

- 3.2 The Council collects parish precepts from our 78 Parishes and passes it on to them directly with no control over how these precepts are spent so including these in our spending power is artificial. The 'spending power' approach has the impact of increasing the base that the reduction is compared against thereby reducing the quoted percentage loss of funding.

Breakdown of formula grant

- 3.3 The total reduction in formula grant compared to the actual grant received for 2010-11 of £10,905,340 is £2,30,567 and can be analysed as follows:

	£	% Change
Formula Grant 2010/11	10,905,340	
Concessionary Travel transfer to County	-906,705	8.31%
Other Transfers	-51,102	0.47%
Reduction in remaining formula grant	-1,372,760	12.59%
Total change	-2,330,567	
Formula Grant 2011/12	8,574,773	21.37%

Formula Grant Reductions

- 3.4.1 Cherwell District Council was expecting a tough settlement and had modelled on scenarios of between 20%-30% over the four years of CSR. The CSR showed that local government would suffer cuts of up to 26% over the four years but the profile was front loaded. Our Medium Term Financial Worst Case Scenarios assumed a reduction of 20% in the first 2 years.

		% Change
Formula Grant 2010/11	10,905,340	
Concessionary Travel transfer to County	-906,705	8.31%
Other Transfers	-51,102	0.47%
Adjusted Formula Grant 2011/12	9,947,533	8.31%

Adjusted Formula Grant b/f 2011/12	9,947,533	
Reduction in remaining formula grant	-1,372,760	
Formula Grant 2011/12	8,574,773	13.80%
Transfers	-51,438	
Adjusted Formula Grant b/f 2011/12	8,523,335	
Reduction in formula grant	-894,950	
Formula Grant 2012/13	7,628,385	10.50%

2 Year Cumulative Reduction (less transfers)	- 2,267,710	24.30%
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- 3.4.2 The outcome of the provisional settlement is that the Council will see its formula grant reduce from £10.905m to £8.575m in 2011/12 and to £7.628m in 2012/2013. If we exclude the impact of the transfers this represents a reduction of 13.8% in year 1 and a further 10.5% in year 2. This equates to 24.3% in 2 years.
- 3.4.3 The position for the final 2 years is not known and the implications for the Medium Term Financial Strategy will be considered along with the final draft of the budget.

Concessionary Travel

- 3.5 As per earlier papers on the transfer of concessionary fares the Council had prepared three models based on the consultation options. These models indicated that on top of losing the funding for the expenditure incurred the

Council would have an additional pressure of between £0.3m and £1.3m. Within the draft budget 1 was a budget pressure for this transfer of £800,000 which was a mid-range of the proposed options.

- 3.6 Ministers have adopted concessionary fares option 3 which reduces shire districts' baseline by their present level of spending. They have also adopted concessionary fares option 8 which uses a new formula to amend upper tier authorities' baselines.
- 3.7 This has reduced the pressure to £232,000 over and above the expenditure. The Council has worked with neighbouring Councils and in conjunction with LGA to lobby against the additional pressure.
- 3.8 Our response to the formula grant consultation in November 2010 focussed on this and the settlement appears to suggest that this lobbying was successful however if we look at how other Authorities have fared then we have lost more funding. We will be joining with the Society of District Treasurers to make representations on this.

Other Transfers: Flood defence

- 3.9 There will be a new grant paid of £20.9m in 2011-12 and £36.1m in 2012-13 to reflect new responsibilities. There will be a transfer from formula grant of £21.5m in 2011-12 and £42m in 2012-13 to reflect savings on private sewers. This transfer out equates to £51,000.

4 FLOOR AND DAMPING IMPACT

- 4.1 As in previous years the Government has limited the level of reductions on authorities by retaining the 'floor damping system'. The floor for any authority depends on its type, resource need and on its dependence on grant within its budget requirement.
- 4.2 The floor system sets a % level at which no authority can fall below. The cost of the floor is paid for by all of the authorities that lie above the floor. These authorities have their grant reduced to pay for the 'protection' offered to the authorities that have done relatively worse than other authorities. In previous settlements Cherwell have been above the floor and have therefore had to contribute to the protection given to other authorities.
- 4.3 Authorities have been placed in one of the four bands based on the percentage of their budget requirement that they receive from Formula Grant, each band corresponding to the quartiles.

	Maximum <u>reduction</u> in adjusted formula grant 2011-12	Maximum <u>reduction</u> in adjusted formula grant 2012-13
Band 1 - Greatest Protection	13.8%	10.5%
Band 2	14.8%	11.5%
Band 3	15.8%	12.5%
Band 4	16.8%	13.5%

- 4.4 The result is that, although high-need/ low-resource authorities are partly protected, the cuts in grant have, as a result, a relatively flat distribution across the country. Those local authorities with the highest council tax income and lowest needs have received much higher increases in Formula Grant than expected.
- 4.5 In terms of dependence on formula grant Cherwell is now in the first quartile and receives damping in order to reach its floor of 13.8%.
- 4.6 Without the protection of the floor the % reductions in grant for the next two years would have been:
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|---------|-------|
| 2011-12 | 20.3% |
| 2012-13 | 17.6% |
- 4.7 The amount of protection the Council receives in monetary terms for the two years is as follows:
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|---------|----------|
| 2011-12 | £651,194 |
| 2012-13 | £607,383 |
- 4.8 With the exception of South Oxfordshire and West Oxfordshire, the other local authorities in the county are at the floor.
- 4.9 The reality of the situation is that the Council is faced with a reduction in formula grant (excluding concessionary travel) of 13.8% compared to the adjusted formula grant for 2010-11. This is significantly greater than the national overall picture that was revealed in the Spending review in October of 10.9% and the reductions are front loaded. The reduction across the first 2 years is 24.3%.

5. OTHER FUNDING STREAMS

Council Tax Freeze

- 5.1 The settlement confirms that there will be a grant of £650m to fund the implementation of a council tax freeze in 2011-12. The grant is equivalent to a 2.5% increase in council tax and equates to £155,037 for Cherwell and is in line with the amount already included in draft 1 of the 2011/12 budget.
- 5.2 There will be funding to support this amount in the four Spending Review years. However there will be no funding to support continuation of this freeze to 2012-13.
- 5.3 It was announced in the CSR that funding for building growth would be available. The following funds have been earmarked:

New Homes Bonus

2011-12	£196m
2012-13	£250m

The Government hopes that its New Homes Bonus, which aims to incentivise house-building by match funding the Council Tax on every new home for each

of the following six years, will prevent a housing shortage and encourage the building of 150,000 affordable homes over the spending review period.

- 5.4 It is expected that this funding will be distributed when the final formula grant figures are released at the end of January 2011.
- 5.5 If the consultation paper principles are confirmed then this Council will receive £440,000 in the first year. The consultation closes on 24 December 2010 and a detailed review of the scheme and implications for Cherwell District Council has been prepared in providing our consultation response. Any funds received from this initiative will be used to fund the expenditure associated with this type of housing growth.
- 5.6 This amount has not been included in the 11/12 budget plans at this point as:
 - The consultation process of the fund does not end until Dec 2010 and the outcome of the responses will not be known until late Jan 2011.
 - The allocation of the funds may differ from the current proposal as the County's are lobbying for more than a 20% share of the funding.
 - The terms and conditions of the funding are unclear.
 - This is a temporary funding stream and a strategy is required to understand how the Council will use this funding initially and what will happen when the fund is ended and how this may impact on formulae grant.

6 SUMMARY

- 6.1 Whilst Concessionary Travel could be viewed as a successful campaign, the level of general grant reduction in 2011/12 is much greater than the average 10.9% reduction outlined in the Spending Review in October and year 2 is also severe at ~10.5%.
- 6.2 The implications of the final settlement and in particular the front loading will be used to formulate the refresh of the medium term financial forecast which will be considered by the Executive in February 2011 and the savings target to match 2012/13 budget reductions will form part of the final corporate improvement plan.