

Copy of the written statement by the Minister for Local Government to the House of Commons on Tuesday 19th July

The priority goal for Government policy on local government finance is stability and certainty so that Local Authorities, their partners and the public have reasonable expectations of income and expenditure levels and trends.

To that end I am today moving that policy forward with the introduction of three-year settlements for local government, it is an opportune time to review the basis on which we distribute formula grant to local authorities in England. Formula grant underpins the provision of a wide range of local services and is not hypothecated, so that decisions on local priorities can be made by local authorities. We have already introduced a degree of stability in the formulae for grant distribution; these were last changed for 2003–04, and we made clear then that we would not change the underlying methodology for a period of three years. From 2006–07, we therefore have the opportunity to change the distribution system.

We want to take this opportunity to consider four main issues. First, the formulae that we use to distribute grant are designed to reflect the relative circumstances of local authorities, as well as the policy or operational context for local authority services. There have been developments over the years which mean that some formulae are simply out of date in that, for example, they still use old data such as that from the 1991 census.

Secondly, we need to establish a firm basis for the introduction of three-year settlements for local government. As part of that agenda, we need to find ways of making the finance settlements more forward looking to reflect growth in population.

Thirdly, we are examining ways of distributing grant that do not involve — or appear to involve — second guessing councils' spending and taxation decisions, to clarify accountability and responsibility for local choices.

Finally, the system needs to reflect the change that is taking place in Government funding for schools.

Following the last review of grant distribution formulae, the Government have run a number of research projects and have been working with local government and other interested parties to consider possible changes to the formulae which could be introduced once the freeze had ended. The official level Settlement Working Group, consisting of representatives from all types of local authority in England along with interested parties from central Government, has considered some 75 technical papers together with research reports over that period. Separate technical groups have examined the formulae for the Police, Fire and Rescue services. I am grateful to all those who assisted the Government whether by contributing to these discussions or helping with the research and survey work.

Following on from that work, the Government are now launching public consultation on options for change to the formula grant system. I am today publishing the consultation document on the ODPM website at:

<http://www.local.odpm.gov.uk/finance/0607/consult/index.htm>.

Copies have been placed in the Vote Office and the Library of the House. We look forward to receiving views on our proposals. The consultation period will close on 10 October and the Government will then decide on the shape of the formula grant system from 2006–07 onwards.