

Formula Grant Distribution 2008-09 to 2010-11

1. With permission, Mr Speaker, I wish to make a statement about local government finance in England. For the first time ever, this is a three year settlement.
2. I am today able to confirm for each authority for each of the next 3 years, not just allocations of formula grant, but also allocations of the new Working Neighbourhoods Fund and 60 other specific grants, from 8 Government Departments.
3. In total, Government revenue funding for local authority services will be in the years 2008-09, 2009-10, 2010-11: £70.4 billion; £73.5 billion; and £76.7 billion. These are increases of 4.0%, 4.4% and 4.3%, respectively.
4. This continues the sustained real terms increases for local government under this Government. By the end of the CSR period, local government will have received a real terms grant increase of 45% since 1997-98.
5. Formula grant - which includes Revenue Support Grant, redistributed business rates and Police grant - will total in each year: £27.5 billion, £28.2 billion, and £29 billion; increases of 3.6%, 2.8% and 2.6% respectively.
6. Every authority will receive a formula grant increase in every year.
7. In addition, we expect of local government the same 3% annual efficiency improvements as the rest of the public sector. Delivering this would mean councils have an extra £4.9 billion to spend over three years on improving services or cutting council tax pressures.

Certainty, Flexibility, Equity and Stability

8. We have worked closely with local government over the past two years, in assessing cost pressures and the scope for efficiencies. This settlement takes account in particular of the pressures on adult social care budgets, and on waste.
9. Local government wanted certainty, flexibility, equity and stability in funding. All of which this settlement delivers.
10. On **certainty**, we are providing a three year settlement, not just for the core grant but for 60 other central government grants and for regeneration funds.
11. On **flexibility**, we have pooled 37 of the 60 specific grants – and the new regeneration fund – into the new area based grant, worth £4.7

billion by 2010-11, three quarters of which was previously ring-fenced. We are also transferring £900 million a year from other specific grants into formula grant.

12. Local government also wanted less bureaucracy from central government. So we have radically streamlined the new performance framework, with a single set of 198 national indicators, down from around 1,200.

Equity

13. On **equity**, we consulted local government over the summer on making the method of grant distribution fairer. My conclusions are set out in the further consultation paper we are publishing today. But let me highlight these points.
14. Following a major review, we were able to introduce a new and improved formula in each of the three areas of social care in 2006.
15. For the last two years, we have been damping two of these formulae. I now propose to end the additional damping and fully implement the social services formulae.
16. The overall system of grant floors will ensure that this unwinds quite gradually, over this and the next spending review periods.
17. I also propose to make the system fairer to authorities with a relatively low council tax base. These authorities will have much more difficulty than others in coping with spending pressures. I therefore propose to increase by 2% the proportion of the blocks for relative needs and relative resource within the available total.
18. Having made significant progress with regeneration in many of the most disadvantaged areas of the country, the new £1.5 billion Working Neighbourhoods Fund (WNF) replaces NRF and builds in the DWP's Deprived Areas fund to create a single fund at the local level.
19. As we set out in the Sub National Review, we are concentrating this funding on tackling worklessness in the most deprived areas. 66 Local Authorities will receive WNF funding for 3 years, and the 21 authorities that currently receive NRF but do not qualify for the new fund will get two years of transitional funding.

Stability

20. On stability we consulted on aspects of the Area Cost Adjustment. I propose some changes to reflect more recent evidence in the weights given to labour and business rates costs.

21. However I have decided not to implement any changes in the geography of the ACA. The consultation proposals only covered a very few areas, and the financial turbulence involved did not seem justified by the relatively minor refinements that would result.
22. I therefore intend to take advantage of the next three years to conduct a full review of the ACA, which will begin after the House has debated and approved this settlement.
23. I also propose no change to the expenditure base of the formula for Fire and Rescue. I have concluded that the last few years have been an untypical period for the service, making spending patterns an uncertain base for a formula. Again, I propose to conduct a thorough review of the formula. This will also begin in the New Year.
24. Grant floors damping is the main way in which we ensure stability of funding for councils over time. We will continue the system of floors, which ensure that every authority receives a formula grant increase in every year of the CSR period.
25. In setting floor levels, I have struck a balance between providing an increase for all authorities and allowing formula changes to come through.
26. In each of the three years, the floors will be:
 - For fire and rescue authorities, and for shire district councils, 1.0%, 0.5% and 0.5%;
 - for authorities with responsibilities for education and social services, 2.0%, 1.75% and 1.5%; and
 - for police authorities, the floors will be 2.5% in each year.

Population

27. To deliver this three year settlement, we need to use the best and latest data available on a consistent basis across all authorities, at the time we calculate the three years' figures. For population, these are the population projections produced by ONS in September which take advantage of improvements in the way migrants are counted. The majority of councils in our consultation wanted us to use these figures.
28. In recent years the UK has seen significant demographic changes, not least in the patterns of people's mobility. These changes create new measurement challenges.
29. We are determined to build on recent improvements, whilst recognising that there is no single, simple or swift solution to the challenges. I can

announce today that the National Statistician will now bring together central and local government to work on ways to improve population survey data and make greater use of administrative data.

Council tax

30. 10 successive years of above-inflation grant increases from this Government – confirmed through the new spending period - and tough capping action, have helped bring down council tax increases. Keeping council tax under control remains a priority for the Government. We expect the average council tax increase in England to be substantially below 5%. We will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases.
31. So this is a tight settlement but it is fair and it is affordable. It delivers the certainty, flexibility, equity and stability that local government wanted. We know councils are capable of innovating, managing change and improving efficiency without a disproportionate impact on council tax payers. The challenge and onus is now on councils to demonstrate the leadership to do just this.
32. I commend this statement to the House.