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## THREE YEAR REVENUE AND CAPITAL SETTLEMENTS

### 1 SUMMARY

- 1.1 The purpose of this report is to agree a response to the above consultation paper issued by the Office of the Deputy Prime Minister, received on 20 December.
- 1.2 A copy of the consultation paper is on deposit in the Members Library.

### 2 BACKGROUND

- 2.1 At present all Government allocations of funding are awarded on an annual basis. Some allocations are made known only a few weeks before the commencement of the financial year.
- 2.2 This regime makes it extremely difficult for local authorities to produce meaningful forward budgets. The Government is, therefore, suggesting that from 2006/7 funding allocations for both capital and revenue expenditure is given for a period of three years.
- 2.3 The consultation paper requests responses on 19 specific questions.
- 2.4 The Society of district Council Treasurers (SDCT) has already produced a technical response to the questions mentioned above, a copy of which is attached as Appendix 1 to this report.
- 2.5 It is proposed that the response of the SDCT is enclosed with some general comments set out in the following sections of this report.

### 3 REVENUE SUPPORT GRANT

- 3.1 The proposal that the level of Revenue Support Grant is set for a period of three years is to be welcomed. This will make budgeting far more certain than is the case at present.
- 3.2 One of the main concerns, as always for Rochford, is the level of grant. When the system was last revised it appeared that, for the first time, the assessment of the Grant needed for Rochford began to reflect our spending need.
- 3.3 Rochford has still not received the amount of grant it is assessed as needing. This is because the government requires Councils to fund the cost of protecting those authorities that have been assessed as needing less funding than under the previous regime.
- 3.4 This has been referred to as floors and ceilings. The effect of this system has been to ensure that, irrespective of the amount of funding deemed necessary, very little changed from the previous unsatisfactory system.

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- 3.5 It is essential that, under any new system, the Government funds any protection deemed necessary for those authorities that lose under the new rules. This would then allow those authorities that either have no change or benefit to receive the full amount of funding to which they are entitled.
- 3.6 In any three-year settlement, it is vital that, if during the period Government imposes new duties, adjustments reflecting the full cost of the initiatives are made.
- 3.7 It is considered even more important for the above views to be accepted if the Government is to continue with the capping regime introduced in 2004/5.

#### **4 SPECIFIC GRANTS**

- 4.1 There are a number of specific grants which are issued just prior to the start of the financial year. In some cases grants are offered mid-way through the year and have to be spent by the year end.
- 4.2 This type of financing, particularly if given late in the year, does not allow for adequate planning which can lead to inefficiencies.
- 4.3 Three-year allocations are therefore welcomed.

#### **5 CAPITAL ALLOCATIONS**

- 5.1 Again, having three-year allocations will greatly enhance financial planning. The scheme will need to fully address the fact that capital spend fluctuates considerably owing to the different nature of individual projects.
- 5.2 The SDCT view in respect of capital grants is strongly supported as, once grants become part of the Revenue Support Grant calculation, authorities cannot be guaranteed to receive full value.

#### **6 THREE-YEAR BUDGET AND COUNCIL TAX INFORMATION**

- 6.1 In this section the Government confirms that it will continue with the council tax capping regime. It also proposes that three-year budgeting becomes mandatory with the prospect of fixing these budgets in advance.
- 6.2 There should now be very few authorities that do not work within at least a three-year budgeting timeframe. Authorities will also be even more closely examined on their financial procedures as part of the Comprehensive Performance Assessment. As such it is questioned whether legislation is really needed.
- 6.3 The proposal to actually fix budgets three years in advance is not practical and should be resisted.
- 6.4 The Government should not fear Councils being free to continue setting their budgets on an annual basis as they have stated they will continue with their capping regime.

6.5 There seems to be no reason why Parishes should not be required to produce three-year budgetary forecasts.

**7 RECOMMENDATION**

7.1 It is proposed that the Committee **RESOLVES**

That, subject to Member views, the response from the Society of District Council Treasurers be endorsed and the points set out in Sections 3 to 3 form the basis of the response.

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**Background Papers:-**

None

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## APPENDIX 1

**THREE YEAR SETTLEMENT CONSULTATION PAPER  
DRAFT RESPONSE FROM SDCT**

Question	Response
<b><u>Formula Grant Settlement</u></b>	
<p>1 In the Government's view there is merit in considering a system involving a basis ("floor") increase for each type of authority and a variable top up depending on characteristics of each authority. Views are invited on the future shape of the formula grant system for three-year settlements.</p>	<p>There should be a minimum fixed increase for all authorities – an integral part of the Shire Districts argument when redesigning the EPCS was that there should be a fixed element in the grant for the cost of being in business. This argument was accepted and added into the formula calculation. Shire Districts wanted it outside the formula and so this suggestion is to be welcomed. However, this element should be much more than the current £300k and Districts should be treated equally to other tiers of Local Government.</p> <p>The problem however will again be how to calculate the proposed two variable amounts. There are inevitably winners and losers in the current and future systems. The current system provides year on year winners and losers with many in the middle with wide fluctuations depending upon the level and funding of the floor. This needs to be changed as it will only get worse when the new revaluation figures start in 2007/8.</p> <p>It is possible for the government to determine the estimated split between RSG and Business Rates. The current system is very inconsistent as the amount of Business Rates varies considerably from year to year. This does not accord with Council collection records but does appear to be used to vary the amount of RSG the government wishes to add to the 'already collected' Business Rates. Surely the government could use a Sinking Fund approach and then adjust if necessary every three years when actual figures are known.</p> <p>Local government was vehemently against putting the two grants together when last consulted.</p>
<p>2 Views are invited on when changes in the grant formulae, data and funding totals should be allowed to happen.</p>	<p>The proposals are acceptable.</p>

<p>3 At this stage, the Government believes that the best way forward would involve using some form of forward looking data for population and council tax base and frozen multi year averages for other data items. Views are specifically sought on when, how and how far to update the data used in the formulae.</p>	<p>With a three year settlement the only fair way is to use agreed forward looking data which is almost certainly already available. There are however still too many individual items of data used in the EPCS formula that are in effect negated by the floors (and scaling factor). The main problem will be service growth areas, particularly those imposed by Government legislation. It may be worth projecting forward for each authorities via the formula system on an annual basis, with a review at the end of each three-year period when more actual data is available.</p>
<p>4 In the Government's view no retrospective amendments to the formula grant settlement as a rule is likely to be the best option, though it is possible that these could be considered if a major systematic error were discovered. Views are invited on this issue, and on whether floors should be set at higher levels in change years.</p>	<p>A lot of time and effort is wasted on re-calculating retrospective amendments which often are negated by the floor. For Districts the amounts are usually so small as to be not worth it. It should be possible to rectify any major discrepancy by adjusting the following years grant rather than re-opening previous years (see also question 3).</p>

<u>Specific Revenue Grants</u>	
<p>8 5 For three-year settlements to work effectively, specific revenue grants need to move to a three-year basis unless there are compelling reasons which suggest an alternative approach for particular grants. To this end, the Government invites views on:-</p> <ul style="list-style-type: none"> <li>• Whether there are ways in which the categories of grants identified for exclusion from three-year settlements could be better incorporated into a three-year framework; and</li> <li>• Whether the types of grants identified are indeed those where allocation on a three-year basis would be most difficult.</li> </ul>	<p>It is agreed that three year settlements should be applied as well to specific grants even though there may be a number of overlaps with these grants, ie they will not all start at Year 1.</p> <p>For expenditure based grants it does not really matter as long as the percentage re-imburement is known as it is easy for Councils to forecast their expenditure in most cases. It would also be beneficial if bid based grants could be agreed for the duration of the project. If criteria are not met there could be a clawback at the end of the project.</p> <p>Performance based grants should certainly have a three year future. A good example is the Planning Delivery Grant where many Districts have struggled to know what to include in budgets from year to year. There have also been a number of smaller grants from other government departments over the past few years eg Waste, Community Policies, Drugs etc and these all need to be included. It is suggested a review of all these grants, how they are announced and allocated, and how long they will be provided, is carried out by ODPM before it makes a firm decision on how to include them in three year settlements. This in itself would give authorities more certainty when preparing budgets.</p>
<p>9 6 <b>Views are invited on the Government's proposals for increasing predictability of annual grants.</b></p>	<p>This is a welcome approach</p>
<u>Capital Allocations</u>	
<p>7 Views are invited on the Government's proposals for treating bid-based programmes and performance rewards.</p>	<p>The proposal for 3-year bidding rounds would be beneficial from a capital planning point of view and provide a much firmer timetable for the completion of schemes. Coastal authorities would particularly welcome this approach when planning coast protection works.</p>

8 Views are invited on the proposed handling of funding for emergencies	A sensible approach
9 Views are invited on how major projects should be defined. Should there be one or more cash value threshold(s) and, if so, what value should they be set at and why? Or should thresholds be set as a percentage of an authority's ongoing capital programme? Or are there other approaches that could be used?	Capital programmes vary tremendously depending on amounts of capital receipts, successful bids for grants, etc. A percentage threshold, however, is the preferred choice, but probably linked to the cost per head of population.
10 Views are invited on whether the benefits of three-year allocations would outweigh the advantages of the current arrangements for small bid-based programmes.	Similar to question 8 and so the current arrangements seem sensible.
11 Views are invited on whether a move to capital grants for emergencies or large one-off projects would be helpful.	Capital grants are much the preferred alternative method, otherwise there is often an adverse impact on Councils' revenue budgets for those at the floor where Revenue Support Grant is clawed back. There could also be an impact from the timing of SCE(R)s.
12 Views are invited on what more might be done to provide three-year certainty for the Private Finance Initiative.	There is no comment on PFI

**Three Year Budget and Council Tax Information**

<p>13 Views are invited on the proposed general approach to providing greater stability and certainty through the publication of forward indications of budget levels and council tax.</p>	<p>Most Council's already provide three year forecasts of budgets and Council Tax, albeit provisionally. The protocols would bring more certainty to the process and capping warnings could be issued for years 2 and 3 before Council Tax levels were actually set. However one of the problems would be change of political control either on the four year cycle or even more so for those with annual elections. The public in general do not respond to Council Tax consultations but they do make decisions at the ballot box.</p> <p>It is not possible to fix budgets three years ahead unless we know the pay award and of any increase in employers superannuation. These are a very large part of overall budgets. It would also need a change in the legislation relating to tax bases and collection funds which can also have an impact on the level of Council Tax.</p>
<p>14 Should there be legislation requiring parish councils and levying bodies to publish forward projections of budgets and in the case of parishes corresponding figures for contributions to council tax to mirror three-year settlements?</p>	<p>It would seem sensible to urge Parish Councils and levying bodies to comply – through legislation if necessary.</p>
<p>15 The Government believes that there should be a legal requirement to publish forward projections of budgets and corresponding figures for contributions to council tax to mirror three-year settlements. Views are invited on how this might best be achieved.</p>	<p>Is a legal requirement really necessary and what would be the penalty if complete changes to the projections had to be made? There are many circumstances that could occur in a three-year period which would result in alterations to the budget/Council Tax, eg inflation, interest rate changes, emergencies, changes in politics, changes in services etc. Can any other bodies set their charges for three years and why is three years the selected period?</p>



<p>16 In the absence of a statutory basis for three-year budget requirements, the Government also invites views on the options for, and practicality of, a voluntary arrangement to the same effect, in advance of any introduction of a statutory basis.</p>	<p>A rolling 3-year programme is good practice and so guidance from CIPFA might be appropriate, especially if incorporated in a Code of Practice.</p>
<p>17 Views are sought on:</p> <ul style="list-style-type: none"> <li>· what types of circumstance might merit alteration to three-year budget plans and council tax forecasts, consistent with the aims of transparency and stability underpinning three-year settlements; and</li> <li>▪ what controls could be put in place to ensure that alterations are only made in these circumstances, on either a statutory or a voluntary basis.</li> </ul>	<p>See the answer to question 15.</p> <p>See the answer to question 16.</p>
<p><b><u>Context for Implementation</u></b></p>	
<p>18 Once initial Local Area Agreements are in place, they could in principle be aligned with the cycle of three-year settlements. Views are invited on the merits of such an approach and its practicability</p>	<p>At present these do not affect District Councils except if in partnership with County Councils.</p>
<p>19 In the light of these issues views are invited on how best to move to a three-year settlement for HRA subsidy consistent with the principles in paragraph 1.12.</p>	<p>No comment available at time of drafting report.</p>