

## **TAUNTON DEANE BOROUGH COUNCIL**

**EXECUTIVE 9th MARCH 2005**

### **REPORT OF THE HEAD OF RESOURCES**

This matter is the responsibility of Councillor Williams (Leader of the Council)

### **ODPM CONSULTATION PAPER ON 3-YEAR REVENUE AND CAPITAL SETTLEMENTS**

#### **Executive Summary**

The Office of the Deputy Prime Minister (ODPM) has issued a consultation paper setting out proposals for three-year revenue and capital settlements. The system is due for implementation from 2006/07 with a view to announcing local authority finance settlements for 2006/07 and 2007/08 during 2005. This report outlines the proposals, and sets out proposed response to the consultation paper.

#### **1. Purpose of Report**

- 1.1 To inform Members of the contents of the ODPM's consultation paper on three-year revenue and capital settlements.

#### **1. Background**

- 1.1 The Government introduced three-year financial settlement for its own departments in the Comprehensive Spending Review in 1998. Following a commitment in the 2004 Spending Review, the ODPM have now published a consultation paper setting out proposals for three-year revenue and capital settlements for local authorities, police authorities, and fire and rescue authorities in England.

#### **2. What The Consultation Paper Covers**

- 2.1 The income for local authorities, police authorities, and fire and rescue authorities comes from a variety of sources. This includes formula grant (Revenue Support Grant (RSG) and Business Rates (NNDR)), and specific grant, locally raised council tax and capital grants. In addition, authorities receive income through other sources including fees and charges. The proposals in the consultation paper cover the majority of grants from central government.
- 2.2 A summary of each area of change is set out in the remainder of this report. Large sections of the consultation paper are of a technical nature – the summaries below are an attempt to consolidate the issues raised in each.

2.3 Due to the technical nature of this consultation paper, the Head of Resources will respond on behalf of the Council.

### **3. The Government's Overall Approach To Three-Year Settlements**

3.1 The Government believes that the introduction of three-year settlements for authorities will:-

- Provide greater certainty in funding for local services;
- Allow organisations that rely on authorities for funding to introduce a multi-year approach to funding;
- Enable better risk management leading to greater stability in council tax increases;
- Strengthen financial management;
- Increase flexibility, autonomy and accountability at the local level.

3.2 The proposed approach will mirror that for government departments in the Spending Review – with three-year settlements being rolled forward every two years. This means that the last year of one review forms the first year of the next review. As the next Spending Review is due in 2006 it is anticipated that there will need to be special arrangements for the first settlement as it can only cover the two remaining years of Spending Review 2004 (2006/07 and 2007/08).

3.3 The consultation paper also highlights the need for the 2007/08 grant settlement to reflect council tax revaluation, which is due to be implemented on 1<sup>st</sup> April 2007.

3.4 The Government is also proposing to align changes to local authority functions with the Spending Review. This means that changes in responsibilities, and hence funding totals, will be made at the outset. Unplanned functional changes will not be made during the three-year period unless there is a strong case for doing so.

### **4. Formula Grant Settlement**

4.1 The Government is seeking views on the shape of the future formula grant system to accommodate three-year settlements. This could result in fundamental changes in the way that formula grant is allocated to authorities.

4.2 The consultation paper recognises that a balance needs to be struck between the predictability of the three-year figures against the desire of allocating resources closely to the need and reflecting the most up to date information available.

4.3 Options discussed in the paper include:-

- A floor increase in grant with variable top-ups for relative service costs calculated by formula;

- A flat-rate percentage increase;
- A simpler formula with a smaller number of indicators.

## **5. Specific Grants**

- 5.1 It is proposed to make three-year allocations to authorities unless there are overriding reasons against this. Grants that are paid on an expenditure basis, or are based on performance are likely to be excluded from this.

## **6. Capital Allocations**

- 6.1 The Government accepts that the longer lead-in times required for capital investment make forward certainty particularly important. It is proposed that as far as practicable, there should be firm certainty for capital allocations.

## **7. Three Year Budget and Council Tax Information**

- 7.1 The consultation paper contains proposals for local authorities to publish indicative three-year budgets and council tax levels. Views are sought on how this might be achieved, and what types of circumstances might merit alteration to three-year budgets and council tax forecasts.

- 7.2 The Government consider that, with certainty of grant entitlement, authorities should be able to fix their budgets three-years ahead (and encourage Parish Councils to do the same).

## **8. Context For Implementation**

- 8.1 The consultation paper stresses the need to consider the practical and legislative implications of three-year settlements and their links to wider reforms. These are as follows:-

- The Lyons Inquiry (local government funding);
- The Efficiency Review (Gershon)
- Govt's Strategy For Local Government (due 2005)
- Introduction of Local Area Agreements

- 8.2 The Government is also considering the best way to move to a three-year settlement for Housing Revenue Account subsidy.

## **9. Recommendation**

- 9.1 The Executive is requested to note:-  
A/ the proposals in the consultation paper; and  
B/ that the Head of Resources will respond on behalf of the Council.

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