

## ***Local Government Finance***

### **Adjusted 2006/07 Relative Needs Formula and Formula Grant**

#### ***Introduction***

1. This note sets out the way in which adjusted Relative Needs Formula (RNFs) and formula grant for 2006/07 have been calculated for use in the 2007/08 settlement.
2. A range of summary information and a full list of transfers and adjustments is given in the "key tables" accompanying the settlement. Figures for each authority are given in the table of Adjusted RNFs by Service Block and the table of Adjusted Grants.

#### ***Adjustments to 2006/07 Formula Spending Shares***

3. Adjusted RNFs and formula grant are calculated for use in the floor damping mechanism and to allow a like-for-like comparison with 2007/08. **They do not affect any authority's grant entitlement for 2006/07.**
4. Adjustments to RNFs are made when a new burden is imposed on or taken away from authorities or where the funding stream is altered (for example, between RNF and special grant). Some transfers of function are included within the SR announcement totals without being costed separately. There have therefore been no adjustments to the base year in respect of these.
5. Adjustments are not made for general control total increases (for example, to allow for demographic pressures) or for changes not confined to local government (for example, National Insurance Contributions). We have not adjusted for transfers that amount to apportioning the results of the Spending Reviews where these have been given on a gross Total Standard Spending basis (for example, the transfer for PFI special grant).
6. The majority of adjustments for 2006/07 are made in the same way i.e. taking the transfer amount in 2007/08 and deflating by 2.46% to allow for the effects of inflation. The control total for 2006/07 is thereby revised and the 2006/07 formula applied to it.
7. Where a special grant has moved into general funding, the actual distribution in 2005/06 has been used. Where a transfer is being made

from the settlement and an appropriate RNF amount in the base year is clearly identified, that amount is used to revise the control total.

8. Details of the individual adjustments are given for each block below. It should be noted that there were no adjustments with respect to highway maintenance, Fire, Police, EPCS and Education RNFs.

*Adjustments to the 2006/7 baseline for Adults Personal Social Services*

9. There will be two transfers made with respect to the Personal Social Services (PSS) in 2007/08. These are:

- (i) Social Care Inspection
- (ii) Preserved Rights Grant

The first of these transfers is a repeat of one made in 2006/07 and as a result we do not plan to adjust the baseline to take account of it. The proposed methodology for the other transfer is given below.

**Preserved Rights**

10. £11.516 million from this special grant is being rolled into formula grant in 2007/08. The total adjustment is 0.0001747108. This is the transfer deflated by 2.7%, the GDP deflator and adjusted to reflect RNF amounts. This is subdivided between the two adult PSS sub-blocks as shown below:

Sub-block	Amount of transfer (£ million)	Proportion of transfer	2006/7 Preserved Rights control total (£ million)
Younger Adults' PSS	0.0001310370	75%	
Older People's PSS	0.0000436738	25%	
Total Adjustment	0.0001747108		0.004636387

11. To calculate the adjustment we propose to multiply the 2006/7 allocations of Preserved Rights grant for each authority by 0.037683338, i.e.  $0.0001747108 / 0.004636387$ .
12. 75% of the adjustment for each authority would then be added to their 2006/07 younger adults PSS RNF and 25% of the adjustment would then be added to the older peoples PSS RNF for 2006/07. This is because, when the transfer takes place, younger adults make up

around 75% of the personal social services clients who retain preserved rights.

*Adjustments to the Capital Financing RNF*

13. A number of supported capital programmes are to be transferred from supported capital expenditure to capital grant due to the difficulties of providing information for 3 year settlements.
14. The total amount of RNF adjustment for 2006/07 is 0.00165873 (a negative adjustment). This is split is between the different programmes relative to their size. These amounts are distributed to authorities pro-rata to their 05-06 SCE(R) allocation in the relevant programmes.

***Adjustments to 2006/07 Formula Grant***

15. The method for calculating adjusted formula grant - essential for floor damping purposes - was changed for the 2003/04 settlement. An authority's adjusted grant for 2005/06 is now the actual grant received under the 2005/06 Amending Report plus the net effect of transfers prorated to the total control total for transfers. The net effect is calculated from the RNFs i.e. its adjusted 2006/07 RNF (as calculated above) minus its RNF from the 2006/07 settlement. The size of these formula grant transfers is given in Key Table 3.

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