

## **THREE-YEAR REVENUE AND CAPITAL SETTLEMENTS**

### **SUMMARY OF CONSULTATION RESPONSES**

#### **Background**

A commitment was made in the Government's 2004 Spending Review to consult on the implementation of three-year revenue and capital settlements for local government in England. The consultation was launched on 15 December 2004 and ended on 11 March 2005. This paper gives a summary of the responses.

#### **Current system**

The current system for local government funding predominantly involves an annual formula grant settlement from ODPM to fund on-going core activities, including capital investment. Additional funding for capital projects outside the annual settlement comes from grants for specific projects following bids from authorities. Specific revenue grants are also distributed to authorities separately from the annual formula grant settlement.

The limitations of an annual system, whereby authorities receive notice of the level of funding near the start of the financial year, are that it is impossible to plan budgets with certainty. The problems with specific grant allocations are that they may be allocated at any point during the year so can not really form part of the budget setting process.

Clearly annual settlements and allocations make medium-/long-term planning very difficult. Authorities can not prudently predict the availability of resources to fund projects in the subsequent and future year(s). Taking strategic decisions on longer term projects becomes impractical.

#### **Purpose/Benefits**

Three-year funding settlements for local, police, and fire & rescue authorities aim to provide greater certainty and stability in funding local services by removing the obstacles to more effective longer-term financial planning. This certainty should lead to strengthened financial management, increases in planning timescales and more efficient use of resources locally. The longer financial horizon will improve strategic decision making about local priorities.

Benefits should also arise for organisations that rely on authority funding, such as Regional Development Agencies.

The greater freedom to plan should enable authorities to predict council tax, to an extent. Some level of certainty will then be given to council taxpayers.

## **Timescale**

Three-year settlements will follow the Government's Spending Review framework. Thus spending plans will be set for three years and reviewed every two years. So the last year of one settlement becomes the first year of the next.

The intention is to introduce three-year settlements in 2006/07. This year is the second year of Spending Review 2004 (SR04). This means the first 'three'-year settlement will cover just the two remaining years of SR04 (06/07, 07/08). SR06 will then set spending plans for Government Departments for 07/08, 08/09, 09/10. The Government intends to announce firm three-year revenue and capital allocations, including specific grants in the autumn before 2007/08. Thus the approach will mirror that for Government Departments in the Spending Review, with three-year settlements being rolled forward every two years.

## **Responses received**

There were 186 responses to the consultation exercise broken down into the following groups:

165 Local Authorities:

|          |                        |
|----------|------------------------|
| 44 (238) | District Councils      |
| 27 (34)  | County Councils        |
| 26 (34)  | London Boroughs        |
| 25 (47)  | Unitary Councils       |
| 19 (36)  | Metropolitan Councils  |
| 1        | Town Council           |
| 13       | Police Authorities     |
| 9        | Fire Authorities       |
| 1        | Police & Fire Combined |

|   |  |
|---|--|
| 9 | Local Authority Representative Organisations |
| 8 | Other Representative Organisation            |
| 2 | Government Departments                       |
| 1 | Businesses                                   |
| 1 | Others                                       |

[The number inside in the brackets represents the total number of that authority type.]

It was clear that many of the responses had given considerable thought and time in their formation. This was extremely welcome and all responses have been carefully considered.

## **How responses were analysed**

All the questions, apart from 9 and 12, were analysed by splitting responses initially into those who commented on the question and those who did not. Of the former, these responses were broken down into those who generally agreed with the Government's proposal, those who disagreed, and those who did not have a clear preference for or against.

Question nine asked for views on how major projects should be defined, and so this question has been analysed by splitting responses into categories.

Question twelve also asked for views, rather than asking for comments on the Government's proposal, and so this question has been analysed by dividing responses into four groups of response type.

### **[High level messages]**

Responses broadly welcomed the principle of introducing three-year allocations for revenue and capital funding.

The main concern was over question 15. This question proposed that there be a legal requirement to publish three-year budgets and corresponding figures for contributions to council tax. Many responses pointed out that the circumstances are not predictable over three years and there must be flexibility in the system to respond to changes and alter council tax accordingly.

Although the consultation paper did not ask for views on the planned timing of the introduction of three-year settlements in 2006/07, some respondents took the opportunity to comment on this issue and expressed concern. A variety of reasons were given for why 2006/07 would not be an ideal year to introduce the new system:

- need to take full account of the transfer of schools funding out of the system in 2006/07
- ending of the formula freeze, which will impact on grant distribution
- outcome of the Lyons Inquiry will come too late to affect the 2006/07 three-year settlement introduction (should wait until the outcome)
- too much reform is being proposed in too small a period of time; there is not really enough time before autumn 2005 to fully explain all outstanding details and allow full consultation
- council tax revaluation is taking place in 2007/08 and it is hard to assess the impact that this may have on grant distribution.

The decision of when three-year settlements would start was made in the Spending Review 04. Whilst the reasons outlined above may be valid reasons for postponing the introduction of three-year settlements, arguments can always be made as to why introduction should be delayed in a particular year.

### **Responses to the consultation questions**

## QUESTION 1

**In the Government's view there is merit in considering a system involving a basic "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.**

The consultation paper sets out options that move away from notional calculations of spending need, and involve more or less simplification in assessing need and grant. The preferred approach can be characterised as involving a basic "floor" for all authorities with variable top ups reflecting the circumstances of individual councils. The following analysis shows the amount of support for this preferred approach. Some aspects of this option are part of the current system, and some opinions expressed also relate to the current system (see below).

Number of responses to Question 1: 169 (91% of total responses)

Agree with Government's preferred approach: 54 (32%)

Disagree with approach: 79 (47%)

Comments but no definitive preference: 36 (21%)

*Breakdown of most frequent comments related to new approach:*

|  |          |
|--|----------|
| <ul style="list-style-type: none"><li>The current system should be retained and refined. Any simplification of the system would undermine fairness and robustness. Pre-announced floors would improve stability, without the need to completely change the present system.</li></ul> | 20 (12%) |
| <ul style="list-style-type: none"><li>Floors are an important part of the formula grant system, but should not be used as the key mechanism for distributing grant. The grant distribution system must reflect the need to spend.</li></ul>  | 35 (21%) |

*Summary of most frequent comments also relevant to the existing system:*

- Floors should be funded separately. All authorities should receive the full amount of grant that the formulae indicate.
- Agree with principle of "floor based" system, but the base position for any new system must accurately reflect current need to spend.

## QUESTION 2

**Views are invited on when changes in the grant formulae, data and funding totals should be allowed to happen.**

The preferred approach aligns all aspects of three-year settlements with the existing Spending Review round, with firm three-year allocations being announced for the first full Spending Review cycle after three-year settlements are introduced. As in the Spending Review round, the third year of the cycle will become the first year of the next round. But the settlement for this year will not be reopened, simply recalculated to give a more accurate starting point for the calculation of following settlements. Government also proposes that if new funding is introduced, for example, to allow for new responsibilities for local government, it should be distributed as specific grant until it can be incorporated into the settlement cycle.

The following analysis shows the amount of support for Government's proposals as detailed above.

Number of responses to question 2: 159 (84% of total responses)

Agree with proposal: 103 (65%)

Disagree with proposal: 40 (25%)

Comments on proposal, but no definitive preference: 16 (10%)

*Summary of most frequently received comments:*

- Prefer current cycle of 3-year formula freezes with annual data updates.
- Concerns about large distribution changes when new data incorporated.
- Generally content that funding for new responsibilities should be covered by specific grant, and rolled into the following three-year settlement.
- Some concerns that new burdens when rolled into the system will not reflect actual costs.
- If data are to be frozen, it must be very robust.
- To run three-year settlements in line with Spending Reviews seems sensible.

**QUESTION 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.**

The consultation paper sets out the Government's preference for using formal projections for the dominant data drivers of population and council tax base, and for using frozen multi-year averages for all other data.

The following analysis shows the amount of support for Government's preferred approach.

Number of responses to question 3: 168 (90% of total responses)

Agree with proposal: 84 (50%)

Disagree with proposal: 64 (38%)

Comments on proposal but no definitive preference: 20 (12%)

*Summary of most frequently received comments:*

- In favour of using projected data for population and taxbase.
- A robust methodology for producing projections must be pre-determined and agreed with local government.
- A number of respondents would prefer all data to be projected.
- Other respondents would prefer all data to be frozen.
- Others would prefer all data to be updated annually.
- Projections must be forward looking estimates, not simply based on historical trends.
- General concerns about the reliability of projected data.

#### **QUESTION 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.**

Government proposes that previous settlements should not be routinely reopened to take account of more up-to-date data, and that setting a higher floor in change years will help to smooth the introduction of new data. However, Government also recognises the possible need to retrospectively amend earlier settlements if a major systematic error is discovered. The following analysis shows the response to Government's proposals as set out above.

Number of responses to question 4: 164 (88% of total responses)

Agree with proposal: 93 (57%)

Disagree with proposal: 51 (31%)

Comments on proposal but no definitive preference: 20 (12%)

*Summary of most frequently received comments:*

- Broad agreement that settlements should not be amended retrospectively.
- Recognition that there must be arrangements in place to amend if major errors do occur.
- If retrospective amendments are made:
  - Government should fund these directly, not claw grant back from local authorities.
  - Consideration should be given to introducing a de-minimis arrangement whereby changes below a certain amount are excluded from the re-calculated settlement.
- Some disagreed with retrospective amendments under any circumstances.
- If data are robust and updated every year, retrospective amendments should not be needed.
- Respondents fairly evenly divided as to whether higher floors should be set in change years.

## QUESTION 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:**

- ***whether there are ways in which the categories identified above could be better incorporated into a three-year framework; and***
- ***whether the types of grants identified are indeed those where allocation on a three-year basis would be most difficult.***

The Government proposes that in the future specific revenue grants should generally be allocated on a forward three-year basis. However, the Government also recognises that in some cases it may not be either sensible or desirable for certain types of specific revenue grants to move to a three-year approach. The following analysis shows the amount of support for the Government's proposals as detailed above.

Number of responses to question 5: 161 (87% of total responses)

Agree with proposal: 132 (82%)

Disagree with proposal: 7 (4%)

Comments but no definitive preference: 22 (14%)

*Summary of most frequently received comments:*

***Whether there are ways in which the categories identified above could be better incorporated into a three-year framework***

- Performance based grants should definitely have a three year future.
- Suggestions to include larger bid-based grants in three year proposals.
- Suggestions for pilots to be incorporated into a three year regime if government departments were encouraged to timetable them to either coincide with the start of a three year settlement or so that the start time, funding and participants are known when the three year settlement is announced.
- Useful if bid-based grants could be agreed for the duration of the project.
- For expenditure-based grants it does not really matter as long as it is easy for councils to forecast their expenditure in most cases.

***Whether the types of grants identified are indeed those where allocation on a three-year basis would be most difficult***

- Grants based on an expenditure basis should be outside three year settlements.
- No merit in three year allocations for expenditure-based or performance-based grants or pilots.
- Other than expenditure grants, the other grant mechanisms undermine the stability and predictability that the Government is trying to achieve through three year settlements.
- Bid-based or performance-based grants should be kept to a minimum.

***General comments***

- Current instability is due to late decisions and announcements on specific grants. This has a particular impact where details of large specific grants are delayed.
- Grants that fall outside of the three year settlement arrangements may cause volatility in local authority budgets.
- If specific grants are not on a three year basis then stability and predictability is undermined.
- There are too many specific grants and they should be rolled into formula grant.
- Rules, criteria and information on how grant is calculated should be known at the outset and should not be changed over the three year period.
- There must be absolute clarity about changes in responsibility and transfers between specific and formula grant.
- Would like a list of specific grants within each category of those identified, and whether or not they are included as part of a three year settlement regime.
- The level of ring-fenced grants should be reduced further.
- Concerns over the future of education funding.

## QUESTION 6

### **Views are invited on the Government's proposals for increasing predictability of annual grants.**

The Government recognises that where a three-year approach is not desirable, it may be possible to take steps to increase the predictability of annual specific revenue grants. The Government proposes that where a three-year approach is not viable, it will where possible announce in advance the total amount for allocation, the allocation mechanism, the necessary criteria or rules and/or a minimum allocation per authority. The following analysis shows the response to the Government's proposals as set out above.

Number of responses to question 6: 158 (85% of total responses)

Agree with proposal: 145 (92%)

Disagree with proposal: 1 (less than 1%)

Comments but no definitive preference: 12 (8%)

#### *Summary of most frequently received comments:*

- To aid long term financial planning, local authorities would like to see the early announcement of:
  - Allocation mechanisms
  - Eligibility criteria
  - National total amounts
  - Minimum allocations per authority
  - Conditions attached to the grant
  - Intentions to make transfers
  - Changes in methodology
  
- Favour a rolling three year analysis to make clear the impact two years down the line.
- Favour a dedicated webpage that provides information on all specific grants in one place.
- Announcements of specific grants should be made at the same time as the settlement announcement.
- Improvements should be made to the dissemination of specific grant information by individual government departments.

## QUESTION 7

### **Views are invited on the government's proposals for treating bid-based programmes and performance rewards.**

This question was split into two parts:

- 7a bid-based programmes
- 7b performance awards

### **7a bid-based programmes**

The Government proposed bid-based programmes should be incorporated into the three-year settlement, with bidding rounds covering the full three years, rolled forward every two years and generally decisions announced to the same timetable as other three-year allocations. The Government recognises that new initiatives will, in future, only be introduced every two years rather than annually.

Number of responses to question 7a: 145 (78% of total responses)

|  |           |
|--|-----------|
| Agree with proposal:                   | 125 (86%) |
| Disagree with proposal:                | 13 (9%)   |
| Comments but no definitive preference: | 7 (5%)    |

#### *Summary of most frequently received comments:*

- Whilst the majority of bids should be dealt with through three year settlements, some bids should be dealt with annually.
- Benefits of forward certainty outweigh the loss of flexibility.
- Departments must be committed to changes and only introduce initiatives every two years.
- Government should make use of up-to-date data in the three year time frame and there should be reasonable time limit in the use of finance resources for successful bids.
- Proposals that require rapid progression (eg IT projects) should have a short notice bidding process.
- Deadlines for bids should be staggered throughout the year.
- Indicative allocations should be published, especially where these allocations are formula-driven, but also where they are bid-based.
- There should be longer lead times in the bidding process to bring about efficiency benefits.
- Concerns that multiyear planning may place an unrealistic burden on government departments.
- Concerns that there are possible capacity issues in developing and submitting three year bids.
- Concerns that bid criteria are at odds with local demands and priorities.
- Bid based allocations should only be used for major projects.
- Bid-based programmes should be minimised and resources transferred to the single capital pot. Bids should be reduced so that capital funding is distributed on a needs based formula.

- Greater certainty on delivery on outcomes would be provided by switching all funding to capital grants.

### **7b performance rewards**

The Government's favoured approach is to include capital performance rewards in the three-year settlement, with awards being applied for two years, with a lead time of a third year. The Government recognises this change would make the performance reward less immediate.

Number of responses to question 7b: 106 (57% of total responses)

|  |          |
|--|----------|
| Agree with proposal:                   | 71 (67%) |
| Disagree with proposal:                | 30 (28%) |
| Comments but no definitive preference: | 5 (5%)   |

#### *Summary of most frequently received comments:*

- The benefit of forward certainty outweighs the loss of flexibility.
- Departments must be committed to making these changes and accept that new initiatives can only be introduced every two years.
- Performance awards should reflect the infrastructure of the local authority.
- Keeping performance rewards outside the three-year settlement framework would provide greater immediacy between performance and reward. An annual payment of performance grant is preferred.
- Having bidding rounds every 2 years may cause development opportunities to be missed.
- Only limited capital resources should be distributed through performance-based mechanisms.
- Performance rewards reduce the general support available for all and mean spending does not reflect need. Performance-related capital allocations should be eliminated/minimised and transferred to the single capital pot.
- Performance rewards capital allocations should be funded through grant and not the settlement, to allow greater flexibility.
- Greater certainty on delivery of outcomes could be provided by switching all funding to capital grants.
- Performance reward funding will be disruptive in context of the three year planning cycle.
- With so much happening in Local Government Finance, it may be preferable not to change Performance Rewards at this time and wait until the rest of the system has settled down.

## QUESTION 8

### **Views are invited on the proposed handling of funding for emergencies.**

The Government's preferred approach is for funding for emergencies to remain outside three-year allocations, with the levels of funds set aside based on evidence of actual demand.

Number of responses to question 8: 149 (80% of total responses)

|  |     |       |
|--|-----|-------|
| Agree with proposal:                   | 146 | (98%) |
| Disagree with proposal:                | 2   | (1%)  |
| Comments but no definitive preference: | 1   | (1%)  |

#### *Summary of most frequently received comments:*

- The level of emergency funds retained should be:
  - kept to the minimum
  - based on past evidence (eg level of emergency funding used in the last three years)
  - not used as a way for Government Departments to retain resources for non-emergency expenditure.
- Transparent allocation criteria should be published.
- Surplus funds not required in-year, should be recycled for redistribution in the subsequent or future settlement(s).
- An alternative proposal is for authorities to use their reserves in the short term.

## QUESTION 9

### **Views are invited on how major projects should be defined. Should there be one or more cash 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?**

The Government suggested two options for how major projects should be defined and sought views on any other approaches.

The responses to this question were initially categorised as follows:

- (i) those that agreed that the threshold for a 'major project' should be defined as a percentage of an authority's capital budget,
- (ii) those that agreed that the threshold for a 'major project' should be defined as a percentage of an authority's revenue budget,

- (iii) those that agreed that a cash value threshold would be appropriate,
- (iv) those that suggested a different approach.

Number of responses with substantive comments to question 9:

143 (77% of total responses)

Following the initial analysis, it became clear that the majority of responses (54%) were suggesting other approaches to the definition of major projects and a further breakdown of these was carried out.

Of the 143 who made substantive comments:

| Option  | No. of responses / % |    |
|---|----------------------|----|
|   | Number               | %  |
| (i) Agree that major projects can be defined in terms of a threshold set as a %age of an authority's ongoing <b>capital</b> budget.     | 36                   | 25 |
| (ii) Agree that major projects can be defined in terms of a threshold set as a %age of an authority's <b>revenue</b> budget             | 10                   | 7  |
| (iii) Agree that major projects can be defined by a cash value threshold.   | 20                   | 14 |
| <b>(iv) Other Approaches (see breakdown below) :</b>  | 77                   | 54 |
| <i>Agree that major projects should be defined, but suggest a more complex means of definition than those suggested by the question</i> | 30                   | 21 |
| <i>Disagree that major projects should be defined</i>   | 26                   | 18 |
| <i>Agree that major projects should be defined but offered no definitive view as to how this could be achieved</i>                      | 21                   | 15 |

*Summary of most frequently received comments:*

- Only two authorities set out what they saw as appropriate percentage values for defining major projects relative to the size of an authorities capital budget :- 5% or 10% of an authority's capital budget.

- 20 authorities agreed that major projects can be defined in terms of an absolute cash threshold. Only one authority suggested values for such a threshold: £10m for counties and £1m for Districts.
- The responses of the authorities that agreed with the principle of applying a general definition of 'major project' but saw the need for a more sophisticated method than those suggested in the consultation paper fell into three main types:
  - Those in favour of a definition that would combine a number of different factors. The most common factors suggested included the authority's size, the cost of a capital project per head of population, an authority's council tax base and the overall revenue & capital resources of an authority. No response attempted to outline how such a definition might be framed other than in very general terms.
  - Those in favour of applying different thresholds (either absolute or relative) either to different types of authority or to projects sitting within different types of programme.
  - Those in favour of adapting an existing or developing a new Prudential indicator for the task of defining a major project.
- The most common points made by those authorities that disagreed with the principle of a general definition of a major project were:
  - Major projects should be identified on a case by case basis.
  - There is no need for a general definition to be imposed, a 'major project' should be agreed between the funding body and the local authority.
  - There would not be a need to treat large projects differently if the 3-year programme can be aligned with a similar 3-year programme for central government departments as the funding for such large projects will be known with certainty.
  - The definitions proposed in the consultation paper are seriously flawed and should be re-examined.
  - The arrangements for the treatment of major projects should remain as at present.

## QUESTION 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.**

The Government's preferred approach is for small bid-based programmes to have three-year allocations rather than maintaining the current arrangements. However, Government also recognises that some programmes may not be sufficiently predictable to be included in the three-year allocations.

Number of responses to question 10: 149 (80% of total responses)

|  |    |       |
|--|----|-------|
| Agree with proposal:                   | 79 | (53%) |
| Disagree with proposal:                | 52 | (35%) |
| Comments but no definitive preference: | 18 | (12%) |

*Summary of most frequently received comments:*

- Many of the respondents who agreed with the proposal in principal, also requested the flexibility for some of the funding for these programmes to be available outside the three-year settlement.
- Caveats to the proposal include:
  - allocating some annual resources through a bid process
  - considering urgent issues as emergencies
  - enabling resources to be allocated to authorities at short notice where necessary.
- It depends how 'small-scale' is defined as to whether projects should be excluded from the three-year settlement. There are certain circumstances where the potential for benefiting from fixed three-year certainty is limited. Circumstances suggested for exclusion include:
  - a. particularly small projects, eg less than £100k
  - b. a life of less than three years
  - c. uncertain circumstances/unpredictable situations
  - d. demands arising from an inspection regime
  - e. being linked to environmental issues (contaminated Land, air quality programmes) or new technology.
- Clear criteria should be established to decide what small bid-based programmes should be excluded from the three-year settlement.
- Small bid-based programmes should be considered on a case-by-case basis (and a decision reached on whether they are suited for three-year allocations).
- As small bid-based programmes tend to react to issues it would be difficult to anticipate them for inclusion in a three-year settlement; the current arrangement provides flexibility to respond quickly to such situations.
- The current system works well, it should be retained, and the new framework would be more of a hindrance than a help.
- The low materiality of small bid based programmes means that their exclusion from three-year settlements would not disrupt the certainty of the whole three year process and would not be detrimental to planning by authorities.
- Small bid programmes should be grant funded (as they tend not to be on-going) and allocated annually.
- Revenue budgets must be given support for unforeseen increases in interest rates/debt financing if bid-based programmes are not funded by capital grant.
- Small bid programmes should be reduced to the bare minimum.

- DEFRA highlighted that two of their programmes - on contaminated land and air quality - which are small bid-based programmes would be unsuitable for a move to three-year settlements. The Environment Agency supported and justified DEFRA's view that existing arrangements should be maintained for the Contaminated Land programme. DEFRA stressed that they do not favour any move to grants for individual authorities for individual projects, unless such a system can be shown to be as efficient in terms of administration and staff resources (for both DEFRA and receiving authorities) as the existing arrangements.

## QUESTION 11

### **Views are invited on whether a move to capital grants for emergencies or large one-off projects would be helpful.**

The Government's preferred approach is that funding for emergencies and large one-off projects should be provided as capital grant rather than SCE(R).

Number of responses to question 11: 152 (82% of total responses)

|  |     |       |
|--|-----|-------|
| Agree with proposal:                   | 130 | (85%) |
| Disagree with proposal:                | 7   | (5%)  |
| Comments but no definitive preference: | 15  | (10%) |

#### *Summary of most frequently received comments:*

- Capital grants would achieve a more consistent practice between Government spending departments.
- Capital financing assumptions should be fixed at the beginning of each three-year period and used as the basis for underpinning the block grant settlement.
- Capital grants for large one-off projects should have flexibility in timescales for their use.
- Grant has the advantage of certainty (subject to rules on claw back) whereas the supported borrowing gives flexibility to an authority.
- All Government support for capital should be in the form of capital grants rather than borrowing approvals. Some suggested that better borrowing rates would be available as the borrowing would be done centrally.
- Concerns that Government Departments may maximise the amounts allocated through grants to the detriment of three-year plans.
- Concerns that when public spending is tight, grant funding may be reduced.
- Not essential for such capital funding to take the form of capital grants provided costs of borrowing are fully supported by revenue grant towards the loan charges.

- Capital grants are unnecessary for larger projects as only rarely would Government need to shift support for large one-off projects, so the support could be allocated via revenue in the normal way.
- There should not be a general shift towards capital grant for certain types of project if they can realistically be included in the annual local authority finance settlement as SCE(R), because of the different conditions that sometimes attach to the spending of capital grant (compared with the Capital Financing FSS which is non-ring fenced).
- Alternatives to capital grants:
  - keeping back some of the SCE(R) to be distributed to authorities for which emergencies/large one-off projects were subsequently approved (along with changes to the DCFSS for these authorities).
  - holding back some general grant in a central pool and releasing additional RSG to specific authorities in relation to specific major or emergency projects as and when they occur.
- A more general review of this issue should be undertaken outside the consideration of three year settlements.

## **QUESTION 12**

### **Views are invited on what more could be done to provide three-year certainty for PFI.**

Opinions were not sought on any specific proposals regarding PFI in the consultation paper. Responses to this question, however, fell broadly into three groups and have been analysed as such.

- |            |   |
|------------|---|
| Option 1:  | A level playing field can only be achieved by abolishing separate PFI support.  |
| Option 2:  | Three-year allocations should be set up for PFI in the in the same way as other capital support.  |
| Option 3:  | Current PFI funding system should be retained ie grant continues to be paid when the project becomes operational, and the top-slice is, as a consequence, only an estimate and not fixed for three years. |
| Option 3A: | New projects should be handled outside the system, but with a fixed allocation for ongoing projects (so the bulk of support will be set for the three year period).                                       |

Number of responses to question 12: 108 (58% of total responses)

Of the 66/108 who made substantive comments:

|           |          |
|-----------|----------|
| Option 1  | 6 (9%)   |
| Option 2  | 13 (20%) |
| Option 3  | 38 (57%) |
| Option 3A | 9 (14%)  |

*Summary of most frequently received comments:*

Option 1:

- Separate PFI support should be abolished to achieve a level playing field.

Option 2:

- PFI should have three-year allocations in the same way as other capital support. (No detail was provided on how this should be done.)

Option 3:

- PFI should be outside any three-year settlement system, and certainty of sufficient PFI support is the highest priority.
- System needs to retain flexibility, eg annual reviews of the top-slice as currently happens.
- Central government should hold back some resources and allocate annually as needed.
- Funding of the top-slice should be from "new resources".
- Other blocks should vary rather than PFI and SCE(R)s.
- Publication of separate top-slice estimates for the 3-year period is still welcome and arrangements for estimating the top-slice should be reviewed.
- Under-spends due to slippage should be recycled into capital allocations in the following year.

Option 3A:

- New projects should be handled outside the system, but with a fixed allocation for ongoing projects (so the bulk of support will be set for the three year period).

Other:

Suggestions were also made as to how more certainty could be introduced into the grant system:

- Greater use of indicative approval at an early stage to avoid abortive work
- Departments to set out bidding timetables and criteria alongside allocations for 3-year period
- Interest rates and scaling factors to be set at endorsement
- Scaling factor to be set for 3-year period
- No changes to the system made during any 3-year period
- Review possibility of granting increases if that compromises 3-year support / include contingency to allow for increases.

### QUESTION 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.**

The Government believes that greater certainty and stability in funding for local services will strengthen financial management, forward planning and efficient use of resources at the authority level. This would enable authorities to publish forward indications of budget levels and, as far as practicable, council tax. The following analysis shows the amount of support for the Government's proposals.

Number of responses to question 13: 171 (92% of total responses)

Agree with proposal: 85 (50%)

Disagree with proposal: 50 (29%)

Comments but no definitive preference: 36 (21%)

*Summary of most frequently received comments:*

- The main point raised by almost all responses was that indications would almost always be subject to change for a huge range of reasons including: capping, changes to allocations, the democratic process, structural changes, changes in capital programmes, inflation and national pay awards.
- General agreement that certainty of funding should enable local authorities to plan more effectively.
- However, it was firmly felt that it would not be possible to commit to a fixed budget three years ahead.
- There was little support for legal requirements on local authorities to publish firm proposals, and fears that it would cause confusion.
- Opposition to measures that would limit the flexibility of changing council tax rates.
- Most responses said it was unacceptable for a council to be able to commit a successor to its budget and council tax plans.
- Suggestion that the requirement to publish three year plans should be deferred until Spending Review 2007 to enable the acquisition of suitable financial software and necessary training for staff.
- Greater clarification is needed on what is 'indicative' and the extent to which these indications are fixed.

### QUESTION 14

**Should there be legislation, similar to that which we are proposing for local authorities, 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?**

The Government believes there is a strong case for encouraging parish councils and levying bodies themselves to plan ahead on a three-year basis. The following analysis shows the amount of support for the Government's preference.

Number of responses to question 14: 155 (83% of total responses)

Agree with proposal: 79 (51%)

Disagree with proposal: 45 (29%)

Comments but no definitive preference: 31 (20%)

### *Summary of most frequently received comments:*

- The need for consistency would require parish councils and levying bodies to produce budgets, if local authorities are.
- There should only be a voluntary requirement placed on these smaller bodies to publish budget projections.
- Small parishes do not have the skilled staff or the capacity to produce reliable projections, but they do need to be accountable.
- It might be sensible to set a minimum limit on budgets so the very small parish councils are not obliged to complete the task.
- Parish councils and levying bodies do not receive Formula Grant so their finances would not be affected by the introduction of three year settlements.

## **QUESTION 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 be best achieved.**

The Government believes that in order to provide tax payers with information about future plans the requirement to publish three-year budgets and corresponding figures for contributions to council tax bills should be mandatory. The following analysis shows the amount of support for the Government's preferred option.

Number of responses to question 15: 166 (89% of total responses)

Agree with proposal: 17 (10%)

Disagree with proposal: 115 (69%)

Comments but no definitive preference: 34 (21%)

*Summary of most frequently received comments:*

- Broadly felt that a legal requirement is not necessary, and legislation would be very prescriptive and leave no flexibility.
- An appropriate publication would be a council tax leaflet that would accompany the council tax bill.
- All of this information should be made available through Freedom of Information.
- An alternative solution would be the development of a Code of Best Practice.
- Does the Prudential Code already cover this?
- Local authorities should be given a longer period of time to analyse the implications of the Settlement for future years.

## **QUESTION 16**

***In the absence of a statutory basis for three-year budget requirements the Government also invites views on the options for, and practically of, a voluntary arrangement to the same effect, in advance of any introduction of statutory basis.***

The Government believes that in advance of any mandatory requirements to publish three-year budgets authorities should be encouraged to publish the information on a voluntary basis. The following analysis shows the amount of support for the Government's proposals.

Number of responses to question 16: 166 (89% of total responses)

Agree with proposal: 110 (66%)

Disagree with proposal: 27 (16%)

Comments but no definitive preference: 29 (18%)

*Summary of most frequently received comments:*

- A common feeling was that a voluntary arrangement is definitely preferable to legislation, but is it really necessary?
- Local authorities should be encouraged to develop a voluntary code, but ultimately it should be left to the individual local authority.
- Most authorities already have three-year forecasts and do not need encouragement, therefore any changes should be completely voluntary.
- It could become part of the CPA assessment or be considered in the Audit Commission annual management letter.
- This information could easily be placed on local authorities' websites.
- A voluntary arrangement could be promoted by CIPFA.

- It is unnecessary to introduce formal voluntary arrangements that might become almost compulsory.

## QUESTION 17

Views are sought on:

- **What types of circumstances 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**
- **What controls could be put in place to ensure that alterations are made only in these circumstances, on either a statutory or a voluntary basis.**

The Government believes that provision needs to be made for unforeseen circumstances - for instance change in local administration - where it may be appropriate for an authority to change its projected budget requirement. The following analysis shows the amount of support for the Government's proposals.

Number of responses to question 17: 171 (92% of total responses)

Agree with proposal: 21 (12%)

Disagree with proposal: 97 (57%)

Comments but no definitive preference: 53 (31%)

*Summary of most frequently received comments:*

- There are an enormous range of circumstances that might merit alteration to three-year budget plans. These include:
  - changes in demography
  - salary pay bill
  - if contracts are re-tendered and prices do not tie up
  - changes in externally provided information
  - expenditure on emergencies
  - change in administration
  - increase in risk
  - change in demand for services.
- There was a strong feeling, therefore, that it was not useful to try and construct a classification of possible circumstances.
- Some opposition to restricting councils' three-year budget plans. This was viewed as an unacceptable increase in central control.
- There needs to be flexibility to change budget plans and council tax forecasts.

## QUESTION 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.**

Overall, respondents were content with the proposal to align Local Area Agreements with the cycle of three year settlements wherever it was practicable and sensible to do so. Respondents were keen that lessons learnt from the current pilots exercise were used to inform the development of this approach. The following analysis shows the amount of support for the approach.

Number of responses to question 18: 79 (42% of total responses)

Agree with proposal: 61 (77%)

Disagree with proposal: 0

Comments but no definitive preference: 18 (23%)

*Summary of most frequently received comments:*

- Three-year settlements will need to be aligned to LAAs if they are implemented more fully across local government.
- As the LAAs are designed primarily to bring together specific grants they should be included in the three-year proposals. It is not clear how the annual review of targets will contribute towards a longer timescale – perhaps this part of the scheme needs to be reviewed.
- There needs to be alignment of funding streams across all local services, not only those provided by local authorities. This would significantly improve partnership working and strengthen local accountability through LSPs.
- The benefit will be lost if the three-year settlement figures are announced too late to be useful in the LAA planning process.
- The practicality of aligning LAAs with three year settlements will depend on the extent of specific grants and the ability to provide allocations covering the whole period. The results of the LAA pilots will inform this debate.
- These should be aligned where possible but need to maintain flexibility.
- More information is needed on proposals, particularly in relation to the impact on ring-fenced funding.
- If LAAs are to be implemented successfully across local government they must run concurrently with the three-year settlements. This is particularly important if different local authorities are to contribute to the achievement of individual LAA targets. Statutory prescription would be inappropriate

## QUESTION 19

**Views are invited on how best to move to a three-year settlement for HRA subsidy consistent with the principles in paragraph 1.12.**

The consultation paper invited views on how best to move to a three year settlement for Housing Revenue Account Subsidy, consistent with the design principles of three-year funding arrangements outlined earlier in the paper. The proposition in principle is that instead of continuing with the existing regime of an annual HRA Subsidy Determination establishing HRA Subsidy entitlement, there should be a Determination setting HRA Subsidy entitlement for the next three years.

There were 95 responses to this particular question out of a total of 186 respondents. 82 of the 95 responses were substantive.

Number of substantive responses to question 19: 82 (44% of total responses)

In favour of principle: 32 (39%)

Disagree with principle: 12 (15%)

Unwilling to commit to a preference without more detail: 38 (46%)

*Summary of most frequently received comments:*

- Want to see greater detail in proposals.
- Want an opportunity to comment on technical consultation.
- Concerns about inflexibility of system setting Housing Revenue Account Subsidy entitlement for more than one year.
- Content with the current annual system.
- Would want to see any three-year settlement more closely tied to dwelling numbers than the present system is.
- Request to link Housing Revenue Account Subsidy entitlement more closely with regional allocations.
- Should link Housing Revenue Account Subsidy allocation more closely with decent homes.
- Would like to see the timing of the final Determination publication brought forward before December of each year.

## LIST OF RESPONDENTS

|   |   |
|---|---|
| Association of London Government  | Local Authority Representative Organisation |
| Ashford   | District Council                            |
| Association of Chief Police Officers of England, Wales & Northern Ireland (Finance & Resources Business Area) | Representative Organisation                 |
| Audit Commission  | Representative Organisation                 |
| Avon & Somerset Police Authority  | Police Authority                            |
| Avon Fire Authority   | Fire Authority                              |
| Babergh   | District Council                            |
| Barking & Dagenham  | London Borough                              |
| Barnet  | London Borough                              |
| Barnsley  | Metropolitan Authority                      |
| Basingstoke & Deane   | District Council                            |
| Bath & North East Somerset  | Unitary Council                             |
| Bedford   | District Council                            |
| Bexley  | London Borough                              |
| Birmingham  | Metropolitan Authority                      |
| Blackpool   | Unitary Council                             |
| Boston  | District Council                            |
| Bournemouth   | Unitary Council                             |
| Bracknell Forest  | Unitary Council                             |
| Bradford  | Metropolitan Authority                      |
| Brent   | London Borough                              |
| Bridgnorth  | District Council                            |
| Brighton & Hove   | Unitary Council                             |
| Bristol City  | Unitary Council                             |
| Bromley   | London Borough                              |
| Buckinghamshire Fire & Rescue Service   | Fire Authority                              |
| Cambridgeshire  | County Council                              |
| Cambridgeshire Police   | Police Authority                            |
| Camden  | London Borough                              |
| Chartered Institute of Housing  | Local Authority Representative Organisation |
| Chelmsford  | District Council                            |
| Cherwell  | District Council                            |
| Chesterfield  | District Council                            |
| Chorley   | District Council                            |
| CIPFA   | Representative Organisation                 |
| Corby   | District Council                            |
| Cornwall  | County Council                              |
| County Durham and Darlington Fire and Rescue Authority  | Fire Authority                              |
| Croydon   | London Borough                              |
| Cumbria   | County Council                              |
| Darlington  | Unitary Council                             |
| DEFRA (Contaminated Land Branch)  | Government Department                       |
| Derby   | Unitary Council                             |
| Devon   | County Council                              |
| Devon Fire and Rescue Authority   | Fire Authority                              |
| Dorset  | County Council                              |
| Dorset Police   | Police Authority                            |
| Dover   | District Council                            |
| Durham  | County Council                              |
| Durham Police Authority   | Police Authority                            |
| East Sussex Fire  | Fire Authority                              |

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|---|---|
| Ealing  | London Borough                              |
| East Lindsey  | District Council                            |
| East Midlands Regional Local Government Association | Local Authority Representative Organisation |
| East Riding of Yorkshire                            | Unitary Council                             |
| East Sussex   | County Council                              |
| Eastbourne  | District Council                            |
| Eastleigh   | District Council                            |
| Eden  | District Council                            |
| Ellesmere Port & Neston                             | District Council                            |
| Environment Agency                                  | Representative Organisation                 |
| Epsom & Ewell                                       | District Council                            |
| Essex   | County Council                              |
| Essex Police Authority                              | Police Authority                            |
| Exeter  | District Council                            |
| Forest of Dean                                      | District Council                            |
| Gateshead   | Metropolitan Council                        |
| Greater London Authority                            |   |
| Gloucestershire                                     | County Council                              |
| Grant Thornton UK                                   | Business                                    |
| Hackney   | London Borough                              |
| Halton  | District Council                            |
| Hammersmith & Fulham                                | London Borough                              |
| Hampshire   | County Council                              |
| Harborough  | District Council                            |
| Harrogate   | District Council                            |
| Hartlepool  | Unitary Council                             |
| Havant  | District Council                            |
| Havering  | London Borough                              |
| Hereford & Worcester Fire & Rescue Service          | Fire Authority                              |
| Herefordshire                                       | County Council                              |
| Hertfordshire                                       | County Council                              |
| Hounslow  | London Borough                              |
| Hull  | Unitary Council                             |
| Ipswich   | District Council                            |
| Islington   | London Borough                              |
| Kensington and Chelsea                              | London Borough                              |
| Kent  | County Council                              |
| Kent Fire & Rescue Service                          | Fire Authority                              |
| Kerrier   | District Council                            |
| Kirklees  | Metropolitan Authority                      |
| Knowsley  | Metropolitan Authority                      |
| Lambeth   | London Borough                              |
| Lancashire  | County Council                              |
| Lancashire CFA                                      | Fire Authority                              |
| Lancashire Police Authority                         | Police Authority                            |
| Leeds   | Metropolitan Authority                      |
| Leicester City                                      | Unitary Authority                           |
| Leicestershire                                      | County Council                              |
| Lewisham  | London Borough                              |
| LGA   | Local Authority Representative Organisation |
| Lincolnshire  | County Council                              |
| Luton   | Unitary Authority                           |
| Manchester  | Metropolitan Authority                      |
| Merton  | London Borough                              |
| Milton Keynes Council                               | Unitary Authority                           |
| Morley Town Council                                 | Town Council                                |
| North Somerset                                      | Unitary Council                             |

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|--|---|
| Private Individual                       | Private Individual                          |
| NCVO                                     | Representative Organisation                 |
| Norfolk                                  | County Council                              |
| Norfolk Police Authority                 | Police Authority                            |
| North Cornwall                           | District Council                            |
| North Dorset                             | District Council                            |
| North Lincolnshire                       | Unitary Council                             |
| North Warwickshire                       | District Council                            |
| Northamptonshire                         | County Council                              |
| Northumbria Police Authority             | Police Authority                            |
| Nottingham City                          | Unitary Council                             |
| Nottinghamshire                          | County Council                              |
| Oxford                                   | District Council                            |
| Oxfordshire                              | County Council                              |
| Passenger Transport Executive Group.     | Representative Organisation                 |
| Police Authority Treasurers' Society     | Representative Organisation                 |
| Regional Development Agencies            | Representative Organisation                 |
| Reading                                  | Unitary Council                             |
| Redbridge                                | London Borough                              |
| Richmond Upon Thames                     | London Borough                              |
| Rochford                                 | District Council                            |
| Rushmoor                                 | District Council                            |
| Rutland                                  | Unitary Council                             |
| South Holland                            | District Council                            |
| South Yorkshire Police, Fire & Transport | Police, Fire & Transport Authority          |
| Salford                                  | Metropolitan Authority                      |
| Sandwell                                 | Metropolitan Authority                      |
| Sefton                                   | Metropolitan Authority                      |
| Sheffield                                | Metropolitan Authority                      |
| Shropshire                               | County Council                              |
| SIGOMA                                   | Local Authority Representative Organisation |
| Slough                                   | Unitary Council                             |
| Society of County Treasurers             | Local Authority Representative Organisation |
| Society of District Treasurers           | Local Authority Representative Organisation |
| Solihull                                 | Metropolitan Authority                      |
| Somerset                                 | County Council                              |
| South Norfolk                            | District Council                            |
| South Tyneside                           | Metropolitan Authority                      |
| Southampton City                         | Unitary Council                             |
| Southend                                 | Unitary Council                             |
| Southwark                                | London Borough                              |
| SPARSE                                   | Local Authority Representative Organisation |
| Spelthome                                | District Council                            |
| St Edmundsbury                           | District Council                            |
| Staffordshire                            | County Council                              |
| Staffordshire Police Authority           | Police Authority                            |
| Stockport                                | Metropolitan Authority                      |
| Stockton on Tees                         | Unitary Council                             |
| Surrey                                   | County Council                              |
| Surrey Police Authority                  | Police Authority                            |
| Sussex Police Authority                  | Police Authority                            |
| Tameside                                 | Metropolitan Authority                      |
| Taunton Deane                            | District Council                            |
| Telford & Wrekin                         | Unitary Council                             |
| Thames Valley Police Authority           | Police Authority                            |
| Tonbridge & Malling                      | District Council                            |
| Tower Hamlets                            | London Borough                              |
| Unitary Treasurers                       | Local Authority Representative Organisation |

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|---|------------------------|
| West Sussex   | County Council         |
| Wakefield   | Metropolitan Authority |
| Walsall   | Metropolitan Authority |
| Waltham Forest  | London Borough         |
| Wandsworth  | London Borough         |
| Warwick   | District Council       |
| Warwickshire  | County Council         |
| West Devon  | District Council       |
| West Wiltshire  | District Council       |
| West Yorkshire Police Authority & West Yorkshire Police | Police Authority       |
| Westminster   | London Borough         |
| Wigan   | Metropolitan Authority |
| Wiltshire & Swindon Combined Fire Authority             | Fire Authority         |
| Windsor and Maidenhead                                  | Unitary Council        |
| Wirral  | Metropolitan Authority |
| Woking  | District Council       |
| Worcestershire  | County Council         |
| Worthing  | District Council       |