

CHESHIRE EAST COUNCIL

Cabinet

Date of meeting: 17 July 2008
Report of: Interim Chief Finance Officer
Title: Disaggregation of Specific Grants & Formula Grant

1.0 Purpose of Report

- 1.1 The Specific Grants that have been allocated by the various Government Departments (Appendix A), and other funding bodies, to Cheshire County Council for 2009/10 and 2010/11 are required to be disaggregated. The report sets out the mechanism that the Department for Communities and Local Government (DCLG) has put in place for the disaggregation of Specific Grants, both revenue and capital, and the proposals for how this will be implemented for Cheshire East Council and Cheshire West & Chester Council.
- 1.2 The Formula Grant that has been allocated by DCLG to Cheshire County Council for 2009/10 and 2010/11 is also required to be disaggregated. John Healey, the Minister for Local Government, announced that the grants allocated to areas that are being restructured would not be altered and would be constrained to the amount of Formula Grant that has been allocated to the constituent authorities. The report sets out the mechanism that DCLG has put in place for the disaggregation of Formula Grant and the proposals for how this will be implemented for Cheshire East Council and Cheshire West & Chester Council.

2.0 Decision Required

- 2.1 To note the mechanism for the disaggregation of the Cheshire County Council Specific Grants for 2009/10 and 2010/11 and approve the proposals for the implementation of this mechanism for Cheshire East Council as detailed in Section 5.0.
- 2.2 To delegate the agreement of the split of the revenue and capital Specific Grants to the Portfolio Holder Resources in consultation with the Leader and the other Performance & Capacity Portfolio Holders as detailed in Section 5.6.
- 2.3 To note the mechanism for the disaggregation of the Cheshire County Council Formula Grant for 2009/10 and 2010/11 and approve the proposals for the implementation of this mechanism for Cheshire East Council as detailed in Section 6.0.

- 2.4 To delegate the agreement of the split of the Formula Grant to the Portfolio Holder Resources in consultation with the Leader and the other Performance & Capacity Portfolio Holders as detailed in Section 6.7.

3.0 Financial Implications for Transitional Costs

- 3.1 There are no implications for transitional costs in 2008-09. Existing Finance staffing resources are being allocated to assemble the relevant grant data and DCLG are co-ordinating the various Government Departments to provide the necessary fallback calculations.

4.0 Financial Planning Process for 2009/10 and Beyond

- 4.1 The Financial Planning Process was reported to Cabinet on 16th June 2008. It set out the broad timetable for the delivery of the 2009/10 budget and the development of the Medium Term Financial Strategy for 2009 – 2012. In order to achieve the timetable set out in the Financial Planning report it is important that the funding position for both the revenue budget and the capital budget is established as early as possible.
- 4.2 The Specific Grants in particular, once agreed, will need to be reviewed as part of the budget setting process and aligned to the Cheshire East Council priorities and objectives through the Sustainable Community Strategy and the Corporate Plan, assuming that the timescales in each case can be aligned. The extent to which there is flexibility to fully align the grant allocation to Cheshire East Council's priorities will depend on the spend criteria for each grant, particularly where the grant is ring-fenced. The agreement of the split for the allocation of Specific Grants, in line with the Finance Workstream project deadline, will afford as much time as possible for this aspect of the 2009/10 budget setting process.
- 4.3 There will be a balance of unspent Specific Grants in the Cheshire County Council balance sheet position as at 31st March 2009. This will also need to be considered in terms of the 2009/10 budget and the Medium Term Financial Strategy. The disaggregation of this element of Specific Grants will be dealt with as part of the overall agreement of the County balance sheet disaggregation.
- 4.4 It is recommended that, in both the case of Specific Grants and Formula Grant for 2009/10 and 2010/11, the aim should be for a local agreement to be made within the deadlines agreed jointly through the Finance Workstream as detailed in Section 5.6 and Section 6.7.

5.0 Specific Grants

- 5.1 DCLG has asked Government Departments to engage with the new Councils to separate out those grants which are currently allocated to Cheshire for 2009/10 and 2010/11. The sections below cover the methodology DCLG has proposed to the Government Departments on the best way to reallocate grants, although

the precise arrangements will depend on the decisions made by each Department.

- 5.2 The mechanism established by DCLG covers all revenue and capital Specific Grants including Area Based Grant (ABG). A list of specific grants notified to Government Departments is attached at Appendix B but this list is likely to include grants that are no longer applicable and exclude some grants that are in place but haven't been picked up in the initial compilation. Government Departments have been asked to cover all of their specific grants. A list of all grants, currently paid as part of ABG, is provided at Appendix C. DCLG will be co-ordinating the reallocation of this grant stream.

5.3 **DCLG Proposals for Reallocating Specific Grants and ABG**

- 5.3.1 The Government Departments are currently engaging with the new Cheshire Councils to identify the split of the Specific Grants. If this can be agreed then the Cheshire Councils have been requested to provide the details of the split in writing, with the authority of the Cheshire East Council Cabinet and the Cheshire West & Chester Executive, by 1st August 2008. In the case of ABG, DCLG will engage with the Cheshire Councils on behalf of all contributing Government Departments to agree a split of the total ABG allocation.

- 5.3.2 In the meantime Government Departments are determining a fallback allocation based on a methodology which each Department considers appropriate for each grant. The intention is then to consult on proposed allocations and their underlying methodology shortly after 1st August 2008, if the Cheshire Councils have failed to negotiate the split. This is required because, unlike Formula Grant, authorities have not been consulted on the methodology to be adopted in apportioning grants. DCLG had originally set a deadline for responses of 12 weeks after the start of the consultation, with the aim of announcing allocations at the time of the provisional local government finance settlement (likely to be late November). If needed, final allocations would then be confirmed by the end of January in order to allow authorities time to meet the statutory budget deadlines.

- 5.3.3 The interim Chief Finance Officers attending the DCLG Joint Implementation Team meetings have requested the fallback position, the basis of the calculation and the source data for each Specific Grant. DCLG has been asked to co-ordinate the various Government Departments to provide this information as well in advance of the 1st August deadline as possible. This will better inform the local agreement process.

- 5.3.4 The Interim Chief Finance Officers have also requested that DCLG allow additional time beyond the 1st August 2008 to accommodate the slippage that may occur due to the complexity of the disaggregation exercise and the number of Specific Grants that will need to be agreed.

- 5.3.5 In addition the Interim Chief Finance Officers have agreed with DCLG that if the consultation period is required it is reduced to 6 weeks due to the work that will have been done up to the start of the consultation process and to assist with the timely delivery of the 2009/10 budget.
- 5.3.6 As with Formula Grant, the starting position will be to use the data from the original allocations for reallocating, rather than any data that has become available since those allocations were made. This ensures allocations are being made on a consistent basis and the new authorities are being treated in the same way as the previous authorities.
- 5.4 Cheshire County Council also receives Specific Grants from other funding bodies e.g. the Learning Skills Council. These Specific Grants will be disaggregated on the same basis as Central Government grants and to the same deadline.
- 5.5 In some cases the disaggregation of the Specific Grant may result in an allocation for each new authority that is below the minimum allocation specified for an individual authority. Where this occurs it may result in a net cost if the associated expenditure commitment cannot be reduced. This will have to be managed within each Council's overall funding capability.
- 5.6 It is recommended that the Cheshire East Council Cabinet delegate the agreement of the split for all Specific Grants to the Portfolio Holder Resources, in consultation with the Leader and the other Performance & Capacity Portfolio Holders, to achieve the DCLG deadline of 1st August 2008. The Interim Chief Finance Officer for Cheshire West & Chester is proposing to take a similar report to the Executive on 30th July 2008. It is proposed that the Finance Workstream compiles the Specific Grant data and recommends a split for each Specific Grant, together with justification in each case, to enable the East and West Portfolio Holders to agree on the final allocation for each new Council.
- 5.7 It is important to note that, if agreement is not reached by the 1st August deadline, DCLG will implement the fallback position as described in Section 5.3 above.

6.0 Formula Grant

- 6.1 On announcing the final allocations for formula grant for 2008/09, John Healey, the Minister for Local Government said, "In line with the Government's policy on three-year settlements, it is not intended that the 2009-10 and 2010-11 settlement proposals will be changed from those published today, other than in exceptional circumstances".
- 6.2 The DCLG has already consulted with Local Government on the general methodology it intends to use for calculating the formula grant for authorities that are undertaking restructuring during the three-year settlement period in the July 2007 Consultation Paper 'Local Government Finance: Formula Grant

Distribution'. Broadly, in order to ensure that those local authorities that are not directly involved in the restructuring do not have their provisional allocations altered as a result of restructuring, DCLG intends to constrain the amount of Formula Grant that goes to any restructured area to the sum of the proposed formula grant for its constituent authorities.

- 6.3 In areas where the new unitary authorities will be created along sub-county boundaries DCLG suggest that the best method of splitting the formula grant, that would have gone to the County Council, is through negotiation by the shadow authorities, with help from the existing County Council. This split would then be added to the sum of the formula grant intended to go to its constituent District Councils. The latest date that DCLG would require the data on the split of Formula Grant is 24th October 2008. This ensures that the split can be included in the provisional settlement for 2009-10 that will be published for consultation to the usual timetable.
- 6.4 However, DCLG will calculate a fallback position via the formulaic approach outlined in the Consultation Paper. DCLG are working with the new Cheshire Councils and Cheshire County Council in order to do this. It is hoped that the formulaic figures will be available by the end of July 2008/beginning of August 2008.
- 6.5 DCLG require, as a minimum, that the Interim Chief Finance Officer of each of the shadow authorities inform them in writing of the amount of formula grant that has been agreed will be provided to each of the new unitary authorities for 2009/10 and 2010/11. DCLG also need to know how the 2008/09 formula grant would have been split had restructuring occurred in April 2008. This is to enable them to publish like-for-like comparisons for the new unitary authorities.
- 6.6 Another key task for the shadow authorities will be to establish what the budget requirement, the council tax requirement and the Band D council tax would have been for the year before restructuring came into effect for the new unitary authority. The notional data is needed to inform the calculation of Alternative Notional Amounts (ANAs) and associated information that Central Government uses for capping comparisons. They will also be needed by local authorities for their own budgeting purposes.
- 6.7 It is recommended that the Cheshire East Council Cabinet delegate the agreement of the split for Formula Grant to the Portfolio Holder Resources in consultation with the Leader and the other Performance & Capacity Portfolio Holders. The Finance Workstream originally established a deadline for the disaggregation of the Cheshire County Council Formula Grant of 31st July 2008. The agreement of the split for Formula Grant will be better informed by the fallback position calculated by DCLG. This deadline will therefore have to extend beyond 31st July if the calculation has not been completed by DCLG. At a meeting of the DCLG Finance Working Group on 3rd July 2008 the Cheshire Interim Chief Finance Officers requested that DCLG complete this exercise as soon as possible to enable the agreement to be reached on a timely basis to feed into the budget process. The Interim Chief Finance

Officer for Cheshire West & Chester is proposing to take a similar report to the Executive on 30th July 2008.

- 6.8 It is important to note that, if agreement is not reached by the DCLG deadline of 24th October 2008, DCLG will implement the fallback position as described in Section 6.4 above.

7.0 Legal Implications

- 7.1 In accordance with the Cheshire (Structural Changes) Order 2008 DCLG has indicated that it will issue Finance regulations to include reorganisation and transitional matters that are not already covered by existing legislation and regulations. DCLG are reviewing the legislation and regulations that relate to Specific Grants and Formula Grant to establish if additional regulation is required. Current indications are that this is unlikely to be required.

8.0 Risk Assessment

- 8.1 There is a high risk that the information required from DCLG, Government Departments and other funding bodies on the fallback position, the basis of the calculation and the source data will not be available to inform the disaggregation of Specific Grants. This will make it difficult to make a local agreement by 1st August 2008 and will impact on the delivery of the 2009/10 budget setting process. The Interim Chief Finance Officers will continue to stress the importance of the timely receipt of this information in discussions with DCLG.
- 8.2 The disaggregation of Specific Grants is a complex exercise and there is an extensive list of grants to work through. This also puts the 1st August deadline at risk. The Interim Chief Finance Officers have requested that DCLG allow additional time beyond the 1st August 2008 to accommodate the slippage that is likely to occur.
- 8.3 If the agreement on the split of Specific Grants is not made locally by 1st August 2008 the final position may not be known until the announcement of the grant position for 2009/10, which is likely to be November.
- 8.4 There is a risk that the disaggregation of certain Specific Grants could lead to under funding, for either of the new Councils, due to current and continuing commitments to spend that cannot be reduced to match available funding. This would impact on the new Council's budget requirement and would have to be balanced by a saving in another service area or an increase in Council Tax.
- 8.5 If the agreement of Formula Grant is not made locally as soon as possible after the 31st July 2008 it will hinder the budget setting process for 2009/10. If the local agreement is not made by the DCLG deadline of 24th October the final position may not be known until the announcement of the grant position for 2009/10, which is likely to be November.

9.0 Conclusion and Reasons for Recommendation

- 9.1 The disaggregation of Specific Grants and Formula Grant is a very important stage of the 2009/10 budget setting process as it establishes the funding base for Cheshire East Council along with the income from Council Tax. The aim should therefore be to agree the final disaggregation position by the 31st July deadline or in the case of Formula Grant as soon after 31st July as possible.
- 9.2 DCLG only indicated in mid June that the deadline for the local agreement of Specific Grants is 1st August 2008. It is therefore recommended that the agreement is delegated to the relevant Portfolio Holders in consultation with the Leader and relevant Cabinet Members.

For further information:

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Background Documents:

Cabinet Report – 16th June 2008 – Financial Planning Process

*Documents are available for inspection at:
Westfields
Middlewich Road
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