



Milton Keynes Council Response to 2005/06 Provisional Local Government Finance Settlement

The Council recognises that this is a good settlement for the authority, and particularly welcomes the removal of the formula grant ceiling as a step towards giving growing authorities the funding they need. However, there are still some issues and anomalies within the system that need to be addressed.

1 Main Points

- 1.1 The authority welcomes the Government's decision to bring an end to formula grant ceilings.
- 1.2 The settlement again does not address issues of growth arising from the data lag. This could jeopardise the plans for growth in Milton Keynes and other Growth areas, as facilities and services fall behind the growth in housing. The 2006/07 formula review would be a good opportunity to address this issue.
- 1.3 The authority would like any consideration of capping to include comparison of the budget requirement (excluding parish precepts) against FSS, and the absolute levels of council tax, and not just increases.
- 1.4 The Council is concerned that the Chancellors injection of additional funding for 2005-06 contains a significant element that is one-off funding, with a consequential impact on council tax in 2006-07.
- 1.5 The provision for passporting to schools will put pressure on other services to be cut or council tax increased.

2 Ceilings

- 2.1 The authority is pleased to note the end of the ceiling mechanism on the formula grant (although it remains in place within the Education FSS).
- 2.2 Scaling shares the burden across all authorities, and does not unfairly penalise growing authorities who were already suffering due to the data lag.

3 Growth

- 3.1 Local priorities, services, and infrastructure are vital components to growth areas for maintaining existing growing communities and establishing new ones. The RSG mechanism and settlement do not reflect growth in areas like Milton Keynes because the FSS for 2005-06 is based on mid 2003 population estimates, so the population information is two and a half years out of date. The FSS is therefore underestimated, and the Council is consequently under-funded.
- 3.2 For authorities growing as fast as Milton Keynes, and expected to grow even faster under Government plans, this is a serious concern as there are already several thousand service users who are not being taken into account in the settlement each year.
- 3.3 The use of population estimates for 2 years previous to the year to which the funding applies coupled with the threat of capping leaves growing authorities with funding shortages as they are getting neither central funding, nor are they able to compensate via council tax.

4 Capping

- 4.1 This authority has one of the lowest levels of council tax in the local area; however, this is not taken into account when decisions are being made with regard to capping.
- 4.2 Demand for services in Milton Keynes is growing, even without the Government's growth agenda (which only serves to exacerbate the problem), and makes it difficult to pursue a policy of low council tax increases. The Council is poorly placed to cope with any sudden "cost shocks", such that it will have little choice but to pass on any cost increases to the taxpayer in 2006-07.
- 4.3 Any consideration of capping should include comparison of the budget requirement (excluding parish precepts) against FSS, and consideration of the absolute levels of council tax, rather than just increases

5 Effect of One Off Funding

- 5.1 The one off nature of much of the additional funding announced by the chancellor could potentially impact on 2006-07 council tax if compensating funding is not made available by central government.
- 5.2 If alternative funding is not provided, this must be taken into account when looking at capping levels for 2006-07 and following years.

6 Efficiencies

- 6.1 For authorities that have entered into a PPP, these contracts count future savings into the contract price. In essence the Council is getting the future savings now and cannot create them again. A PPP contractor

may not get into profit until half way through the contract, and is not best placed to lower their prices to respond to Government exhortation.

- 6.2 PPP Contracts can range from being modest to all encompassing. In Milton Keynes the 12-year contract covers procurement and administration as well as Finance, Revenues and Benefits, HR, IT, and Facilities. The complexity of having different Councils committed to a different extent requires a considered response, not one size fits all. The bigger the contract, the smaller the budget that remains under the direct control of the authority and available to be directly "Gershoned".

7 Schools Passport

- 7.1 The requirement to passport the schools FSS raises central Government priorities above those of local authorities. In effect this means that this amount of funding is effectively ring-fenced to schools. This results in any service reductions that are required to make the budget balance always having to come from other services, regardless of local priorities. The information currently available on proposals for delegated schools budgets do nothing to relieve these issues.
- 7.2 The passport is also poorly designed in that the funding is for all schools, rather than funds being weighted towards those schools that really need it. The fact that the schools balances have increased significantly over the last three years is evidence that better choices can be made locally between services and their competing demands. In Milton Keynes the schools balances are higher than those of the rest of the Council.

8 Certainty

- 8.1 The Council welcomes the idea of 3-year settlements, which will be of great assistance for forward planning. It is currently considering the detailed proposals contained in the consultation paper.
- 8.2 While the adjustments made to the previous year in respect of specific and special grants moving into FSS are clear, it is very difficult to tell from the information released in the early settlement exactly how the movements of specific grants in and out of the FSS and adjustments to the 2005-06 settlement have impacted on individual authorities. We urge the Government to introduce greater transparency to this part of the settlement.

9 Lyons Inquiry

- 9.1 The authority was disappointed that there was no specific outcome from the Balance of Funding Review beyond setting up the Lyons Inquiry. With significant under funding from central Government forcing authorities into repeated Council Tax increases that are not sustainable in the long term or cutting services, the Council urges the Government to address alternative and additional ways of funding Local Government. Alternatives such as returning setting of NNDR to Local Government,

introducing a local income tax, and more flexible rules on charging for services, could have a significant positive impact on the ability of Local Government to fund its services at an adequate level.