



Provisional Finance Settlement 2007/08

Milton Keynes Council Response to the 2007/08 Provisional Settlement

The Council welcomes the opportunity to respond to the provisional settlement for 2007/08, which remains unchanged from the original release alongside the 2006/07 settlement.

Unfortunately, this is a difficult settlement for Milton Keynes, which leaves the Council facing the prospect of the combined effects of both reductions to service levels and the use of reserves in 2007/08 in order to ensure that the council tax increase can be maintained within the capping limit. The use of reserves in 2007/08 to support the proposed council tax increase below the capping limit is such that the balance of reserves in 2008/09 will be at the minimum level as established by risk assessment. It will not therefore be possible to support a reduced council tax increase in 2008/09 through the use of reserves.

English Partnerships is expected to support the Council through Capital Project Grant in respect of the revenue costs of managing certain growth related capital projects. This funding is to be distinguished from the previous Targeted Income Support provided by English Partnerships, withdrawn from 2007/08, which could be applied to support the general additional burdens faced by the Council as a growing authority.

Key issues

- 1.1 The Council appreciates the efforts made by Government to recognise growth within the distribution of formula grant to authorities through the use of population projections, since the introduction of the Relative Needs Formulae in 2006/07.

Unfortunately, the settlement stills does not provide additional support to authorities to meet the additional revenue burdens faced by growth authorities. Conversely in fact, the recognition of growth in the formula is abated through the operation of the damping mechanism.

- 1.2 In the 2006/07 settlement the damping cost to the Council was £3.97m, and this has risen to £6.5m in 2007/08. The proportion of damping as a percentage of our formula grant allocation has also risen from 5.6% in 2006/07 to 8.8% in 2007/08, the highest percentage for all growth

authorities in 2007/08. The Government goes to great lengths to identify the relative needs of the Council within the Relative Needs Formulae but then takes most of the required increase in Formula Grant away in order to finance the floor.

- 1.3 In 2007/08, the minimum floor increase is 2.7%, which appears to be a very high level of protection that favours authorities with a reducing population over those that are growing. The impact of this high level of protection is manifested in the high cost of damping to growth authorities like Milton Keynes. The effect is an ever-increasing gap between recognised need and formula grant awarded.

Analysis of the damping per head and the Formula Grant per head for all authorities in 2006/07 and 2007/08 highlights that for Milton Keynes, the damping per head increases by 61.89% between the two years, while the increase in formula grant per head is only 2.97%. Furthermore, in 2006/07 Milton Keynes has the 28th highest damping per head of all authorities but in 2007/08, the position rises sharply to 7th highest damping per head. This is despite an overall reduction in the damping cost between the two years of 4.12%, which indicates that Milton Keynes is financing an increasing proportion of the floor, despite being faced with the additional costs of rapid growth.

- 1.4 While the ONS population projections used by the DCLG in the 2007/08 settlement are broadly in accordance with the local projections produced by the Milton Keynes Observatory (Mki), we have some serious concerns about the methodology used to calculate future projections and the impact that this methodology may have on formula grant from 2008/09 onwards given that population is a key statistic in the distribution formulae.

The ONS projections do not take into account house building forecasts and therefore from 2008/09 begin to fall behind local projections, which take this data into account in line with the Government's growth agenda for the borough. The table below illustrates the increasing difference between the ONS forecast population data and the local projections.

	ONS	MKi	Difference
2007	226,200	226,200	0
2008	228,800	231,290	2,490
2009	231,300	236,810	5,510
2010	233,700	242,180	8,480
2011	236,100	247,480	11,380
2012	238,600	252,865	14,265