

APPENDIX 1

Central Government Revenue Support (Formula) Grant (RSG Settlement)

1.0 Background

1.1 Cabinet will recall that the RSG Settlement for 2011/2012 was extremely harsh with Formula grant reducing from circa £8.072m to £6.051m, a 25% reduction. The Settlement also indicated that a further reduction would take place in 2012/2013 where a provisional figure of £5.214m was notified. Further reductions of 2.5% and 7.2% were also probable for 2013/2014 & 2014/2015.

1.2 The Secretary of State for Communities and Local Government announced in Parliament on 8th December the draft RSG Settlement for local government. The following summary highlights the main features.

2.0 Summary of Settlement

2.1 Formula Grant for Watford for 2012/2013 has been notified as £5.419m (and includes the council tax freeze grant of £0.205m). If this grant is discounted, then the Settlement now announced (£5.214m) is as originally advised and confirms a cumulative 35% reduction when compared to grant received in 2010/2011.

2.2 No information is provided for 2013/2014 & 2014/2015 but it has to be assumed that Watford will suffer further grant reductions in succeeding years of 2.5% and 7.2% respectively which was the indicative percentage reductions announced in the Public Expenditure White Paper published in October 2010.

2.3 The announcement confirmed that Watford continues to contribute to the 'safety net' protecting other authorities and has resulted in £149k being taken off the RSG settlement and paid into the national pool (Watford in 2010/2011 had been a recipient of protection of circa £822k).

2.4 There has also been a specific grant allocated to Watford in 2012/2013 of £281k (the same figure as 2011/2012) for 'preventing homelessness'. This is not a ring fenced grant and can be used for any purpose. It is however in addition to the Formula Grant figure of £5.214m and it is proposed within this Cabinet report that all of this grant should be earmarked for housing initiatives (in 2011/2012 £95k had been 'top sliced' to support the Council's net revenue expenditure).

2.5 The Government has confirmed within the settlement papers that councils that froze their council tax in 2011/2012 (all councils did) will continue to receive additional grant in 2012/2013 (and the following two further years). For Watford, the compensation equates to £205k of additional grant in 2012/2013.

2.6 The Government has also confirmed that a further freeze grant will be available in 2012/2013 if authorities again do not increase council tax. For Watford the additional grant should equate to circa 205k but will apply for one year only. It has also been announced that authorities seeking an excessive council tax increase (3.5% for District Councils) would need to hold a local referendum to seek community approval.

2.7 The draft RSG Settlement is subject to widespread consultation with a closing date of 16th January 2012. At this time last year, the Elected Mayor and the Council's MP made strenuous representations to the Secretary of State. It is suggested that, as

the draft Settlement is as originally advised in February 2011, no representations be made this year.

3.0 New Homes Bonus

3.1 In Autumn 2010, the Government announced a new funding initiative to encourage areas to build more homes and bring empty homes back into use. This support was to take the form of a non ring-fenced grant and was to apply for a six year period. There was also an additional bonus where authorities provided affordable homes. For 2011/2012 allocations to individual authorities were not announced until after revenue budgets for 2011/2012 had been fixed. Watford was allocated a specific grant of £420k.

3.2 General guidance on the use of this financial support included:

“ Councils will work with their communities to decide how the extra funding is spent.”
“These cash incentives are part of the Government’s wider programme to give more powers to local people so they can drive economic growth and create jobs.”
“ The New Homes Bonus provides incentives for local authorities to deliver sustainable development.”

Uses highlighted include regeneration and area partnerships; planned growth within an area; developments within towns; supporting affordable housing; and supporting council tax by reducing the pressure on council tax and reserves. The grant is not ring fenced but it would appear that its preferred use is geared to sustainability and regeneration.

3.3 Budget Panel on 29th November (and Portfolio Holders) had been informed that, based upon the number of new dwellings and affordable homes, Watford could expect a grant of £1.5m in 2012/2013 (compared to £420k in 2011/2012).

3.4 On 1st December 2011, the Housing Minister, Grant Shapps announced the allocation of New Homes Bonus Grant for 2012/2013 and confirmed Watford would receive £1,516,361 of grant. This was the highest in Hertfordshire (Three Rivers has been allocated £349,597). It does however need to be recognised the extent to which increased housing can place pressures on an areas service infrastructure.

3.5 This grant is intended to continue for a further 4 years (and can increase if further additional homes are built). There could however be a compensating reduction in RSG from the Government as any increase in the council tax base is often accompanied by a reduction in grant.

3.6 In any event, the current system of financing local government will change in April 2013 with the introduction of the Business Rates Retention Scheme (the detail of which was reported to Budget Panel on 25th October and also Portfolio Holders). In these circumstances it would be unwise to anticipate any support from the New Homes Bonus for future years until such time as definite allocations have been confirmed.

3.7 The use of the additional New Homes Bonus in 2012/2013 is discussed within the main body of the Cabinet report.