

Adjusted 2005/06 Formula Spending Shares and Formula Grant

Introduction

1. This note sets out the way in which adjusted Formula Spending Shares (FSSs) and formula grant for 2005/06 have been calculated for use in the 2006/07 settlement.
2. A range of summary information and a full list of transfers and adjustments is given in the "key tables" accompanying the settlement. Figures for each authority are given in the table of Adjusted FSSs by Service Block and the table of Adjusted Grants.

Adjustments to 2005/06 Formula Spending Shares

3. Adjusted FSSs and formula grant are calculated for use in the floor damping mechanism and to allow a like-for-like comparison with 2006/07. **They do not affect any authority's grant entitlement for 2005/06.**
4. Adjustments to FSSs are made when a new burden is imposed on or taken away from authorities or where the funding stream is altered (for example, between FSS and special grant). Some transfers of function are included within the SR announcement totals without being costed separately. There have therefore been no adjustments to the base year in respect of these.
5. Adjustments are not made for general control total increases (for example, to allow for demographic pressures) or for changes not confined to local government (for example, National Insurance Contributions). We have not adjusted for transfers that amount to apportioning the results of the Spending Reviews where these have been given on a gross Total Standard Spending basis (for example, the transfer for PFI special grant).
6. The majority of adjustments for 2005/06 are made in the same way i.e. taking the transfer amount in 2006/07 and deflating by 2.46% to allow for the effects of inflation. The control total for 2005/06 is thereby revised and the 2005/06 formula applied to it.
7. Where a special grant has moved into general funding, the actual amount due to be paid to each authority in 2005/06 has been used. Where a transfer is being made from the settlement and an appropriate FSS amount in the base year is clearly identified, that amount is used to revise the control total.

8. Details of the individual adjustments are given for each block below. It should be noted that there were no adjustments with respect to highway maintenance FSSs.

Adjustments to the Education FSSs

9. The main adjustment this year is with respect to schools. From 2006/07 onwards schools will be funded via the Dedicated Schools Grant. This transfer has been done at budget rather than FSS. For each authority the schools budget for 2005/06 has been deducted from their schools FSS amount. This means that for some authorities this calculation results in a negative amount whilst for other the amount may be positive depending on whether authorities spent above or below their FSS. In total the schools budget for 2005/06 was £24,923 million.
10. An adjustment is made for the teachers pay grant. Most of this grant is to be paid directly to schools. However £10.856 million is being transferred to RSG for specific authorities. The adjusted FSSs are increased by the amount of deflated grant for each relevant authority.

Adjustments to the Personal Social Services FSSs

11. There are three transfers made with respect to the Personal Social Services (PSS) RNFs in 2006/07. These are:
- (i) Social Care Inspection
 - (ii) Residential Allowances
 - (iii) Preserved Rights Grant

The first of these transfers is a repeat of one made in 2005/06 and hence no further adjustment is required. Detailed descriptions of the methodology used for the other transfers are given below.

Residential Allowances

12. This special grant is being rolled into RNFs in 2006/07. In 2005/06 the Residential Allowance Grant was £214.455 million in total. It was divided between the two adults social services client groups as follows:

| Sub-block | Amount of transfer (£ million) |
|---------------------|-------------------------------------------------|
| Younger Adults' PSS | 45.690 |
| Older People's PSS | 168.765 |
| Total PSS | 214.455 |

13. The adjustment will be the Residential Allowance grant received by each local authority for both client groups.

Preserved Rights

14. Part of this special grant is being rolled into RNF in 2006/07. The total adjustment is £18.13 million. This is subdivided between the two adult PSS sub-blocks as shown below:

| Sub-block | Amount of transfer (£ million) | 2005/6 Preserved Rights control total (£ million) |
|-------------------------|-------------------------------------------|------------------------------------------------------------------|
| Younger Adults' PSS | £ 13.054 | |
| Older People's PSS | £ 5.077 | |
| Total Adjustment | 18.130 | 348.230 |

15. To calculate the adjustment the 2005/6 allocations of Preserved Rights grant for each authority is first multiplied by 0.052064662, ie $18.130/348.230$.
16. 72% of the adjustment for each authority is added to their 2005/6 younger adults PSS FSS, and 28% of the adjustment is added to the older peoples PSS FSS for 2005/6. This is because younger adults make up around 72% of the personal social services clients who retain preserved rights.

Resource Equalisation

17. In addition, the calculation of the 2006/07 younger adults PSS and children's social care formula floors take account of changes in resource equalisation in 2006/07. To do this we have re-calculated the 2005/06 amending report children's and younger adults PSS FSS for each authority as if the resource equalisation change had happened in 2005/06. The increase in resource equalisation were as follows:

| Sub Block | Change (£m) |
|-----------------------------------------|------------------------|
| Children's Social Care | 360.000 |
| Older People's Personal Social Services | 265.000 |
| Younger Adults Personal Social Services | 320.000 |
| England & Wales Police | 210.526 |

| | |
|---------|---------|
| Fire | 35.000 |
| Capital | 818.000 |

Converting 2005/06 Adjusted FSS into RNF comparators

18. In order to compare 2006/07 RNF's to 2005/06 adjusted amended FSS's we have simply divided the adjusted amended 2005/06 FSS for the relevant sub block for each authority by total 2005/06 amended FSS.

Adjustments to the Police FSS/Grant

19. There are three transfers from the police RNF in 2006/07
- (i) Changes to the system of funding pensions
 - (ii) The setting up of a dedicated funding stream for security
 - (iii) Accounting for additional income received from pensions transfer (from central pensions bodies)
20. No additional adjustment is made to the baseline for the central pensions bodies transfer.
21. The new pension arrangements require central government to top-up each police authority's local pension fund when in deficit with a specific AME grant. To adjust the 2005/06 baseline, the police grant amounts are reduced by an amount estimated to have been the specific grant required to balance each Police Authorities pension fund had the system been in place in 2005/06. The adjustment totals to £185 million.
22. To adjust for the security transfer, the 2005/06 police formula is recalculated with the security element removed and the proportions allocated to other elements of the formula increased proportionately to compensate. A total of £212.578 million is deducted from the control total.

Adjustments to the Fire FSS/Grant

23. There are two transfers with respect to the Fire service block. These are changes to the funding of fire pensions and fire modernisation. No adjustments are made with respect to modernisation and the transfer is to be made to grant rather than FSS.
24. For fire pensions, the estimated grant that would have been required to fund fire pensions in 2005/06 is deducted from adjusted FSS, a total of £143,397 million.

Adjustments to the Environmental, Protective and Cultural Services FSS

25. There are nine transfers with respect to the EPCS FSS:
- (i) Concessionary Fares
 - (ii) Freedom of Information
 - (iii) Promotion of Equality for Disabled People
 - (iv) Electoral Administration
 - (v) Civil Defence Grant
 - (vi) To LFEPA for LA resilience
 - (vii) Downstream Oil Emergency Response Teams
 - (viii) Promotion of Equality for Disabled People
 - (ix) Critical Ordinary Waterways (COWs) (deducted from grant)
26. For concessionary fares, the weights given to the lower tier EPCS formula are adjusted in 2006/07 to reflect more fairly the likely distribution of costs resulting from the provision of full concessionary fares. These adjusted weights are used in the 2005/06 baseline and scaled to account for the new control total.
27. The remaining transfers in the EPCS block do not require any adjustments.

Adjustments to the Capital Financing FSS

28. A number of supported capital programmes were transferred from supported capital expenditure to capital grant due to the difficulties of providing information for 3 year settlements.
29. The total amount to be removed from the 2005/06 adjusted FSS is £26.70 million (the deflated amount). This is split between the different programmes relative to their size. These amounts are to be distributed to authorities pro-rata to their 2005/06 SCE(R) allocation in the relevant programmes.

Adjustments to 2005/06 Formula Grant

30. The method for calculating adjusted formula grant - essential for floor damping purposes - was changed for the 2003/04 settlement. An authority's adjusted grant for 2005/06 is now the actual grant received under the 2005/06 Amending Report plus the net effect of transfers. The net effect is calculated from the FSSs i.e. its adjusted 2005/06 FSS (as calculated above) minus its FSS from the 2005/06 settlement.