

# **Consultation on Formula Grant Distribution**

## **Summary of Representations**

### **Background**

This document represents an analysis of all the responses received to the consultation exercise looking at possible options for updating and modernising the Formula Grant Distribution System .

The current grant distribution formulae were introduced in 2003/04 following an wide-ranging review of all aspects of the grant distribution system, and an extensive consultation exercise. After the introduction of the formulae in 2003/04, we made it clear that there would be no further formula changes until 2006/07 at the earliest, in order to give local authorities a period of funding stability. The formula freeze came to an end with the 2005/06 settlement.

Discussions and research on options for changes to the formula have been ongoing since 2003/04, and detailed technical discussions within the Settlement Working Group and Police Allocation Formula Working Group have involved representatives from both local and central government.

### **The Scope of the Consultation Paper**

The aim of this review was to produce a robust and fair system for the distribution of formula grant that will be fit for use in the context of three year settlements. This will include, among other things, adaptations to make the system more forward looking.

We followed up the work undertaken by the Settlement Working Group and Police Allocation Formula Working Group by publishing on 19 July 2005 a public consultation document setting out the Government's proposals for updating and modernising the grant distribution formulae.

This consultation document contained options for each of the components of the grant distribution system. These are the seven blocks in the existing distribution system, other formulae included in the present method of grant calculation, and matters of overall context affecting the arrangements for distribution of Formula Grant.

The consultation paper set out separate chapters containing options on each of these issues, together with details of how each option would affect individual authorities. Respondents were also invited propose new options for consideration within the consultation.

The consultation ran for the standard period of twelve weeks, formally closing on 10<sup>th</sup> October 2005.

## Analysis of Consultation Responses

A total of 355 responses were received within the formal consultation period. A number of responses were also received after the close of the formal consultation period, and we have included as many of the late responses as possible in this analysis.

Consultation responses have been read and considered in detail, and a basic numerical analysis of the responses, together with summaries of the main comments received, are included below.

It should be explained that many of the representations received mentioned or commented on the issues raised in consultation without explicitly expressing support or rejection of our proposals. This has made it very difficult to include them in the numerical analysis.

In order to keep this analysis as consistent as possible, we have not included implied preferences in the numerical breakdown, as some of these responses could be open to different interpretations. Therefore, the numerical analysis very simply shows the number of respondents definitively supporting each proposal, and the number of respondents expressly rejecting each proposal. These figures are also expressed as a percentage in terms of the total number of responses received.

The table below gives a breakdown of consultation responses included in this analysis by the type of respondent:

Type of Respondent	Number of Representations	Percentage of Total Representations
Shire District	122	33%
Shire County	35	9%
Metropolitan Authority	31	8%
London Borough (inc GLA and City)	33	9%
Shire Unitary	30	8%
Police Authority	44	12%
Fire Authority	25	7%
Local Authority Association/ Special Interest Group	13	4%
Other Local Authority Grouping	16	4%
Member of Parliament	17	5%
Passenger Transport Authority	3	1%
Business Organisation	1	0%
Other Representative Body	1	0%
<b>Total Representations</b>	<b>369</b>	<b>100%</b>

## **Responses to Specific Questions**

A breakdown of responses to the individual questions set in the consultation paper is given below. Please note that the percentages given in the numerical analyses below relate to the total number of responses considered in this analysis.

The analysis below is set out in the same order as the consultation document and is split into corresponding chapters for ease of reference.

## Chapter 2

### Schools Transfer

This chapter in the consultation document gave some background on the transfer of funds from the Formula Grant Distribution System to the new Dedicated Schools Grant, from 2006/07. The Department for Education and Skills will take on responsibility for distributing grant direct to schools from 2006/07, and a separate consultation has taken place regarding the format of the new ring-fenced grant.

The removal of the schools money from the Formula Grant System will have distributional effects on the remaining Formula Grant funding other services provided by local authorities.

Two questions were posed in this chapter relating to possible measures to mitigate the distributional effect of removing schools grant. Responses to the questions are analysed below:

*Question 1: Do you think that there should be a customised damping system?*

Number of respondents in favour of the proposal: 76 (21% of total responses)

Number of respondents against the proposal: 50 (14% of total responses)

*Question 2: Do you have comments on the Government's other proposals, to adjust the base using spend figures and to isolate police, fire and shire district authorities from the effects of the transfer?*

Number of responses agreeing the proposal: 132 (36% of total responses)

Number of responses opposing the proposal: 50 (14% of total responses)

Generally, the proposals to protect local authorities from the distributional effects of the transfer have been welcomed by respondents. However, a number of respondents felt that any customised damping system should be financed by additional money, not taken from the Formula Grant pot.

A number of authorities stated in response to Question 2 that all other service blocks must be protected from the effects of the schools transfer. In particular, all authorities providing district level services must be protected, not just shire districts. No respondents questioned the need for Police Authorities to be protected.

An additional question was also published following the main consultation document, regarding the use of pupil data in the LEA Block. As the new dedicated schools grant will be distributed using data taken from the January

pupil counts each year, it was proposed that the LEA Block also move from September data to January data, albeit a year behind the mains schools grant. The Department for Education and Skills have stated that they will be focusing more resources on the January pupil count, and the September count may become less reliable.

*Question 38: Do you agree that the January pupil count should be used instead of the September pupil count as the source for pupils aged 11 and over?*

Number agreeing use of January count: 77 (21% of total responses)

Number against proposal: 29 (8% of total)

The majority of those commenting on this question were content with the proposal to use the January pupil count for the LEA block FSS. Comment on the proposal ranged from support as a sensible idea to opposition due to the time lag in using the data.

## Chapter 3

### New Grant Systems

This chapter explored the possibility of introducing a new system of distributing Formula Grant, particularly in light of the forthcoming move to three-year settlements. The consultation paper concentrated on proposals for a “four-block” system, containing substantial elements on relative needs and resources. The proposed system also looked at the merits of removing notional amounts for council tax and spend, which could be said to be unnecessary in a system whose purpose is entirely to distribute grant.

The chapter posed one question:

*Question 3: Whether we should use the proposed alternative grant system?*

Respondents supporting the proposal: 13 (4% of total responses)

Respondents rejecting the proposal: 220 (60% of responses)

Those supporting the proposal could see the benefit of removing the notional figures currently used in the system. The majority of those rejecting the proposal considered it too complex, less transparent than the existing system and subject to more Ministerial judgement.

## **Chapter 4**

### **Three-Year Settlements**

This chapter set out some details of the Government's plans for the introduction of multi-year settlements from 2006/07. Following the separate consultation exercise earlier in the year, Government announced its conclusions in July 2005.

The chapter clarified a number of issues relating to multi-year settlements. In particular, the timing of the settlement cycle, the format of the data used in multi-year settlements and the treatment of retrospective amendments.

There were no specific questions posed in this chapter.

## **Chapter 5**

### **Amending Reports**

This chapter confirmed the Government's intentions to issue Amending Reports for the 2004/05 and 2005/06 settlements.

The 2004/05 Amending Report is required to take into account revisions to the population estimates used in the calculation of the 2004/05 settlement. Consultation on the principles for the 2004/05 Amending Report took place in the summer of 2004. It follows that the 2005/06 settlement also needs to be amended, as it is at least partly based on the 2004/05 settlement.

For both years, Government will also be taking the opportunity to amend a number of smaller data errors which have been discovered since the original settlements, but which would not have merited an Amending Report in their own right.

There were no specific questions posed in this chapter.

## Chapter 6

### Education – LEA Block

This chapter looked at options for changes the LEA Central Functions sub-block. As the formula is relatively recent, there were only two smaller elements on which the Government posed questions.

*Question 4: Do you think we should remove the element for Further Education residual pensions?*

Respondents supporting this suggestion: 65 (18% of total respondents)

Respondents opposing this proposal: 51 (14%)

Although those responding were fairly evenly divided, there were a majority of respondents in favour of accepting the proposal. Those supporting the proposal agreed that it would be preferable to avoid using planned spending data such as the Further Education residual pensions element. Some suggested that a more reliable source for the pensions adjustment was needed.

Those rejecting the proposal considered that the Government should continue to honour the commitment given in 1993 to meet this spending.

*Question 5: Do you think the LEA damping block should be removed?*

Number agreeing proposal: 90 (24% of total)

Number rejecting proposal: 28 (8%)

It was generally agreed that the overall grant floor damping system was sufficient to protect local authorities from changes in grant, and an individual damping block for this element was unnecessary.

## Chapter 7

### Personal Social Services

In this chapter, Government put options for reviewing and updating the formulae for all three Personal Social Services sub blocks. Research had been ongoing since the last review in 2003/04 to develop options for the PSS formulae to update them and allow for the use of data from the 2001 Census.

### Children's Social Services

The consultation document offered one option for changing the main needs formula for Children's social services (option SSC1). This option follows careful analytical research, and clearly reflects a very different pattern of cost drivers to those used in the current formula.

The consultation paper also contained two options for updating the Foster Cost Adjustment and asked respondents to indicate their preference.

*Question 6: Do you agree with the Government's proposal to implement option SSC1? If not, what alternative would you propose?*

Number agreeing proposal: 94 (25% of respondents)

Number rejecting proposal: 46 (12%)

In general county councils, metropolitan areas and some unitary authorities supported the introduction of this formula, and London boroughs strongly opposed it.

The County Councils Network (CCN) and the Special Interest Group of Metropolitan Authorities (outside London) (SIGOMA) welcomed the introduction of the new formula because it is based on more recent evidence of service need and calculated using 2001 census data. CCN and SIGOMA also welcomed the change of indicators in the formula from 'children living in flats' to 'children not in good health' .

The Association of London Government (ALG) felt that the research had been rushed, that there had not been enough time for them to analyse the results or pursue their technical concerns. The Local Government Association (LGA) also felt that there were inadequacies in the process for discussing this work. Many London boroughs also expressed concern at the continued use of multi-level statistical modelling to derive this allocation formula. Finally, the High Ethnicity Authorities Special Interest Group (HEASIG) felt that the children's formula should include very fine ethnicity categories .

No representations offered an alternative allocation formula for children's social services.

*Question 7: Which option for updating the Foster Cost Adjustment do you prefer?*

Option SSC2

Number supporting: 63 (17% of total respondents)

Number rejecting: 34 (9%)

Option SSC3

Number supporting: 42 (11%)

Number rejecting: 37 (10%)

Opinion was divided on which was the best option for updating the foster cost adjustment. Option SSC2 was narrowly the preferred option.

In general county councils favoured option SSC1, although CCN opposed increasing the weight on the foster cost adjustment from 19.4% to 20%. SIGOMA continued to question the rationale for the foster cost adjustment in general. Having stated their objections, SIGOMA, ANEC and metropolitan councils in general favoured option SSC3. Unitary authorities and London boroughs who expressed a preference were evenly split on this issue.

The strongest objections to both foster cost adjustment option came from the ALG, who do not feel that the options presented to update the foster cost adjustment adequately reflected the costs of fostering in London.

Local authorities were also asked for their views on whether there should be a specific floor damping system on the Children's Social Services FSS to limit the extent of changes following the introduction of any new formula. An additional question asking for views on how such a damping system should be run was added to the consultation following publication of the consultation document.

*Question 8: Do you think that there should be specific floors on the children's social services FSS to limit the extent of the changes?*

Number agreeing that there should be specific floors: 58 (16% of total responses)

Number rejecting proposal for specific floors: 75 (20%)

Opinion was divided on this issue. On the whole, the authorities who would be worst affected by the introduction of the new children's formula were strongly in favour of damping this change if it was introduced. This group included HEASIG, the ALG and 26 London boroughs. A handful each of counties, metropolitan authorities and unitary authorities were in favour of damping this change.

However, in the main, metropolitan authorities, the majority of counties, SIGOMA, the Sparsity Partnership for Authorities Delivering Rural Services (SPARSE) and the Association of North East Councils (ANEC) were opposed to damping changes to individual FSS formula. Many argued that a single

grant floor was sufficient protection for authorities, and that introducing an additional FSS floor would further complicate the system.

*Question 40: If you agree that there should be floors on the children's social services FSS, would you prefer a damping scheme based on a floor, ceiling and scaling factor or just on a floor and scaling factor?*

Number specifically support damping based on floor, ceiling and scaling factor: 17 (5% of total)

Number rejecting system including ceiling: 16 (4%)

Number preferring damping based on floor and scaling factor: 20 (5%)

Number rejecting proposal: 12 (3%)

The majority of responses replying to this question said that they didn't agree with any proposals for damping schemes for individual blocks; the overall grant floor should be sufficient to protect all authorities. Of those that did support an individual damping scheme, the majority would prefer a mechanism not including a ceiling.

### **Social Services for Older People**

The consultation document originally offered two options for updating the deprivation and age top ups in the older people's formula (SSE1 and SSE2). However, part way through the consultation exercise, option SSE1 was withdrawn because, after further consideration, it was decided that it was not possible to produce a statistically robust formula based on the very limited data available for this option.

Therefore, opinions were only sought on the inclusion of option SSE2 in the new formula (*Question 9*).

Number of responses supporting the introduction of option SSE2: 44 (12% of total)

Number rejecting SSE2: 48 (13%)

13 respondents expressed a preference for option SSE1, despite it being withdrawn, and quite a lot of responses failed to comment on SSE2 because they saw it as the only option after the withdrawal of SSE1.

Metropolitan areas strongly opposed the introduction of SSE2. They were concerned that the age top up disadvantaged them because they have low numbers of over 90's. SIGOMA and ANEC have asked the Department of Health to produce a hybrid option for the older peoples formula which should include long term limiting illness and lower age bands. Half of the county councils welcomed SSE2.

Other questions on elements of the older peoples PSS formula looked at updating the Low Income Adjustment, two options for the distribution of the sparsity top up, and the quantum for the sparsity adjustment.

*Question 10: Do you agree with the proposal to revise the Low Income Adjustment (LIA) to include 2001 Census data?*

Number agreeing with the proposal: 102 (28% of total)  
Number opposing the proposal: 36 (10%)

The majority of responses welcomed the updating of the LIA to include new data. Those respondents opposing the proposal felt that using a single item of data in the LIA was wrong, and that further research was needed. These tended to be London boroughs.

*Question 11: Which method of distributing the sparsity top up do you prefer?*

Option SSE4  
Number supporting: 40 (11% of total)  
Number rejecting: 14 (4%)

Option SSE5  
Number supporting: 45 (12%)  
Number rejecting: 21 (6%)

*Question 12: Are you in favour of increasing the quantum for the sparsity adjustment to more than 0.4%?*

Number in favour of proposal: 40 (11%)  
Number against proposal: 68 (18%)

A slight majority of responses agreed with option SSE5 as the preferred method of distributing sparsity.

However, a minority of those commenting agreed on increasing the sparsity adjustment – some said to 1% of Older People's FSS. Those responses that disagreed with raising the sparsity adjustment mostly stated that there was no evidence on which to justify the increase or base the quantum.

## **Social Services for Younger Adults**

The consultation document offered two options for updating the Younger Adults Formula. These options were formulated following detailed research, and the two alternatives depended on whether the social and economic factors in the formula were compared with a measure of service costs or numbers of clients.

*Question 13: Which option do you prefer for the Younger Adults Social Services formula?*

Option SSA1  
Number supporting: 42 (11% of total)

Number rejecting: 54 (15%)

Option SSA2

Number supporting: 48 (13%)

Number rejecting: 51 (14%)

There was no consensus on which option was best for the younger adults formula.

Most London Authorities had doubts about the appropriateness of the modelling and the timescale of the research, and pointed to the technical issues that they had raised. The ALG recommended updating the existing younger adults formula in line with the work that had been presented to the Settlement Working Group (SWG) in the run up to the 2005/6 settlement.

Metropolitan areas tended to favour SSA2, because they thought that the indicators it contains were more plausibly connected with the characteristics of social services clients. Metropolitan District Councils felt that ethnicity was a poor indicator of service intensity. Several thought that the indicator, 'never worked or long term unemployed' was very good.

County Councils tended to favour SSA1, saying that it was the most robust option.

## Chapter 8

### Police

The present Police formula is based on data from the early 1990s and is in obvious need of updating. The Police Allocation Formula Working Group have been fully involved in the development of a range of options for changing the formula. Four options were included in the consultation paper.

*Question 14: Which of the four police options POL2, POL3, POL4, or POL5 do you prefer?*

Option POL2

Number supporting: 15 (4% of total)

Number rejecting: 11 (3%)

Option POL3

Number supporting: 4 (1%)

Number rejecting: 16 (4%)

Option POL4

Number supporting: 15 (4%)

Number rejecting: 12 (3%)

Option POL5

Number supporting: 7 (2%)

Number rejecting: 13 (4%)

No individual option was strongly supported, and a number of respondents argued that the current formula should not be changed, despite the fact that it is obviously out of date. There were also a number of comments regarding the targeting funding for dealing with road traffic accidents.

The consultation paper also proposed that dedicated security funding should be switched from general to specific grant.

*Question 15: Do you agree that dedicated security funding should be switched from general to specific grant?*

Number of respondents supporting proposal: 36 (10% of total responses)

Number rejecting proposal: 8 (2%)

A number of respondents could see that to introduce new specific grants would go against Government's policy of reducing ring-fencing. However, there was general agreement that in this case the proposal would be the best way forward.

One additional question relating to both the Police and EPCS blocks was published after the main consultation paper, regarding amending the output area density indicator to take into account the revised population estimates for 2001 issued by the Office for National Statistics (ONS).

*Question 41: Do you agree that an adjustment to the 2001 Census based output area density indicator, used in both the EPCS and Police blocks, should be made?*

Number agreeing adjustment: 89 (24%)

Number opposing adjustment: 39 (11%)

Again, respondents were in favour of updating the indicator to reflect the revised population estimates.

## Chapter 9

### Fire and Rescue

The existing formula for Fire and Rescue funding mainly takes account of resident population, firefighter's pensions and fire safety. In the proposals, there were changes to the funding of firefighters pensions, which involved the removal of the fire pensions element from the main Fire formula (FIR1).

Additional to this, there were also a number of proposals to change various elements of the existing formula; either replacing a indicators which currently rely on obsolete data, or amending existing indicators.

Opinions were sought in the consultation document in response to four specific questions.

*Question 16: Do you think that the weight of the fixed element for community fire safety should be doubled to 6% (FIR4)?*

Number agreeing with option FIR4: 27 (7% of total responses)

Number rejecting options FIR4: 13 (4%)

There was general support to update the community fire safety element, and a preference was then given for increasing the weighting to 6%.

*Question 17: Do you agree with the proposal (FIR5) to use a property and societal risk indicator to replace the fire safety enforcement indicator? If not, what would you prefer?*

Number agreeing with proposal FIR5: 29 (8% of total)

Number rejecting proposal: 12 (3%)

This proposal was supported by the majority of those who responded to the question.

*Question 18: Which proposal (FIR6 or FIR7) would you prefer to see used as the risk index indicator?*

*Option FIR6*

Number supporting: 17 (5% of total)

Number opposing: 8 (2%)

*Option FIR7*

Number supporting: 19 (5%)

Number opposing: 7 (2%)

Responses to this question were evenly split on which option they preferred, with a slight preference for Option FIR7, which uses ACORN type and Census data.

*Question 19: Do you agree with the proposal to include a fixed element for sparsity (FIR8)?*

Number supporting proposal: 33 (9% of total responses)

Number rejecting proposal: 20 (5%)

The proposal was supported by the majority of those responding to the question. Those against the inclusion of a sparsity element were mainly Metropolitan District and London Borough Councils.

## Chapter 10

### Highway Maintenance

The consultation document detailed a proposal to use a three-year average on traffic flow data in future settlements. This was because the traffic flow data was highly volatile. This would bring the Highway Maintenance formula in line with the rest of the system, where most highly volatile data were already smoothed in this way.

The consultation paper also proposed the inclusion of back lanes in the formula, recognising local authorities' spend in this area, and posed one question on this.

*Question 20: Do you agree that back lanes should be included in the highway maintenance formula?*

Number supporting proposal: 70 (19% of total responses)

Number rejecting proposal: 49 (13%)

The majority of those responding to this question supported the proposal to include back lanes in the formula, commenting that it was only right that local authorities should receive funding for all the services they provide.

However, a number of respondents were concerned that the data used was not sufficiently robust, and some questioned the definition of 'back lanes'. Several responses stated that they could see very little point in introducing this complication into the formula for such little distributional effect.

# Chapter 11

## Environmental, Protective and Cultural Services

The Environmental, Protective and Cultural Services (EPCS) block covers a wide range of services, provided by both upper and lower tier authorities, and the main part of the formula reflects the division of responsibilities between these tiers of local government. Of course, single level authorities also receive funding for the provision of all the services covered by this block.

The majority of formulae within this block are judgement based, and Government has not proposed to alter the main elements of this, simply to update them – particularly to include data from the 2001 Census.

Government is also of the view that it would greatly increase the complexity of the system to very little gain, to split the block into single service areas.

Three questions were posed in the consultation paper, covering proposals for specific elements of the block, two of which related to the treatment of transfers of funding into or out of the system.

*Question 21 Do you think we should adjust the coefficients for concessionary fares?*

Number agreeing the proposal to adjust coefficients to more fairly distribute new money for concessionary fares: 96 (26% of total)  
Number rejecting proposal: 72 (20%)

More respondents accepted the Government's proposal for distribution of the new money for this service than rejected the proposal. A number of respondents stated that this seemed the most sensible way of approaching the distribution issue, and to adjust the coefficients in such a way would prove the best method.

However, a number of respondents felt that the best method of distributing this money would be through a specific grant. And several authorities proposed a 'hybrid' approach, with the majority of the funding being distributed through the proposed method with a separate top up fund made available to cover any shortfalls for individual authorities.

A number of responses stated that those areas where a free travel scheme was already in place should not receive any of the additional funding. But a similar number of respondents called on Government to make sure that these areas should receive their fair share of the resources.

A number of authorities in rural areas were concerned that the proposals were insufficient to meet the additional cost in their areas, and they were also concerned about the future of existing County-wide schemes under the funding proposals.

*Question 22: Do you think we should make any further changes to coefficients; for example, it has been argued that we should do so to take into account the increasing expenditure on waste?*

Number agreeing proposal: 65 (18% of total responses)  
Number rejecting proposal: 64 (17%)

Responses were evenly split on this question. However, it should be noted that a large number of respondents supported the creation of a separate funding block for waste disposal. Most of these responses have not been counted as either agreeing or rejecting Government's proposal, as they did not, in fact, directly answer the question given.

Government had already made clear in the consultation document that it was not looking to create separate blocks for EPCS services at this time. Some authorities had noted this, and proposed that further work should be done to look at this issue before the next review of formula grant distribution.

Those responses agreeing with the proposal stated that the rising costs associated with waste disposal must be taken into account and changing the coefficients to reflect this would be a useful step. Those rejecting the proposal simply did not see that this would serve any purpose.

*Question 23: Do you think we should update the fixed cost element?*

Number agreeing that the fixed cost element should be updated: 123 (33%)  
Number disagreeing: 55 (15%)

The majority of respondents agreed that the fixed cost element should be updated, and many of these felt that this element should be updated annually. However, a number did consider the proposed increase to be insufficient. Several respondents also made the point that this increase should be cash-backed.

Those rejecting this proposal argued that there was no evidence that this element should exist at all, and certainly no evidence that it should be increased.

*Question 24: Do you agree with the proposed method for transferring Critical Ordinary Watercourses (COWs) to the Environment Agency?*

Number agreeing the proposed method of transfer: 95 (26%)  
Number disagreeing with proposal: 9 (2%)

The majority of respondents agreed that the proposed method for transferring COWs to the Environment Agency was the most sensible approach.

An additional question relating to the EPCS block was published after the main consultation paper, regarding updating the country of birth indicator used

in the EPCS block to take into account the revised population estimates for 2001 issued by the ONS.

*Question 39: Do you agree that an adjustment to the 2001 Census based country of birth indicator used in EPCS should be made?*

Number supporting adjustment: 109 (30% of total)

Number opposing adjustment: 43 (12%)

All in all, authorities were in favour of updating the country of birth indicator to reflect the revised data.

Similarly, an adjustment to take into account the revised population estimates for 2001 in the output area density indicator used in both the EPCS and Police FSSs was also proposed.

*Question 41: Do you agree that an adjustment to the 2001 Census based output area density indicator, used in both the EPCS and Police blocks, should be made?*

Number agreeing adjustment: 89 (24%)

Number opposing adjustment: 39 (11%)

Again, respondents were in favour of updating the indicator to reflect the revised population estimates.

## Chapter 12

### Capital Financing

The current Capital Financing block consists of three blocks, and the consultation paper put the case for abolishing two of these blocks as these elements had outlived their usefulness, particularly in view of the new prudential regime for capital management. The abolition of the interest receipts elements would give an opportunity to focus the Capital Financing FSS solely on the financing of capital.

*Question 25: Do you think we should remove the Interest Receipt elements?*

Number agreeing proposal: 169 (46% of total responses)

Number rejecting proposal: 56 (15%)

The majority of respondents agreed that these elements were now obsolete following the introduction of the prudential capital management regime. However, a number of respondents did argue for the retention of the Other Interest Receipts element. (See next question.)

*Question 26: If not, and we retained one or both of these elements, do you have any views on how they should be distributed?*

There were two main proposals put forward in response to this question, the first being that the current system should not be altered, the second being support for option CF4 as proposed by Unitary Treasurers at the Settlement Working Group. This option proposed an updated split of the Other Interest Receipts element based on the total reserves held by local authorities.

*Question 27: If we do abolish the interest receipts elements, should we reduce other FSS totals to compensate, or not? If we reduce other FSS elements, where should we make the reductions?*

Two options were given here – preferences are shown below:

*Option CF2*

Number supporting: 55 (15% of total)

Number rejecting: 35 (9%)

*Option CF3*

Number supporting: 42 (11%)

Number rejecting: 28 (8%)

There was a slight preference among respondents for the option of reducing the capital finance total by the equivalent amount of the interest receipts elements. No alternative options were put forward.

## Chapter 13

### Area Cost Adjustment

Two sets of options for reforming the ACA were set out in the consultation paper – one set detailing a number of minor technical changes to the methodology for the ACA, and one set relating to changes to the current ACA geography.

The technical changes to the methodology included the use of the extended Annual Survey of Hours and Earnings (ASHE) data in the formula and updating the very small Rates Cost Adjustment.

*Question 28: Do you have any comments on our intention to use the full ASHE data set to calculate the ACA?*

Number of respondents in favour of using the full ASHE data set: 194 (53%)

Number against using ASHE data: 28 (8%)

Authorities were greatly in favour of incorporating the full ASHE data into the ACA. The most common reason for opposing this option was that the respondents favoured the Labour Force Survey as the best data to use to calculate the ACA. Only a couple of responses actually opposed moving from the smaller ASHE panel to the full ASHE survey to calculate the ACA.

Two options were set out in the paper regarding the use of the rates cost adjustment in the ACA.

*Question 29: Do you think we should remove the very small rates cost adjustment, or do you think we should update the weighting of the RCA in line with 2003/04 expenditure data?*

*Option ACA2*

Number supporting: 153 (41% of total responses)

Number rejecting: 20 (5%)

*Option ACA3*

Number supporting: 86 (21% of total)

Number rejecting: 28 (8%)

There was no consensus on this issue. Different regions of the country took different views. SIGOMA and ANEC were among the 153 respondents who supported removing the very small rates cost adjustment and simplifying the ACA. Councils outside the South East argued that business rates were a small and declining element of their expenditure.

However, a good number consultation responses from authorities in and around London and the ALG favoured retaining and updating the rates cost adjustment. These were the areas who would be most affected by this

change. They argued that business rates form a significant part of their expenditure. Some suggested that we should also take account of the cost of business rates in services that councils contract out to the private sector - like care of the elderly. However, no respondents offered any suggestions on how this could be done in practice.

Finally, ANEC and others suggested that the proportion of the ACA accounted for by the labour cost adjustment should be updated.

If the options set out above were to be adopted, then Government could reconsider the methodology for setting the lower limit. However, Government would prefer to retain the existing method, and the consultation paper simply asked for respondents' opinions on this option.

*Question 30: Do you agree with the Government's proposal to retain the current method of setting the lower limit for options ACA1-3?*

Number of responses agreeing the retention of the current method:  
104 (28% of total)

Number opposing its retention: 85 (23%)

Responses to this question were divided. Responses from a wide range of councils around the country, agreed that the current lower limit should be retained.

However, a number of responses disagreed with the current lower limit. Those disagreeing fell into two camps. The majority of those who disagreed argued that the current lower limit was too low, and that the top up that the ACA provided to high wage areas was too large, particularly in London. SIGOMA, ANEC and many councils who do not currently receive an ACA top up argued that the lower limit in the present ACA should be set so that only councils with higher than average wage costs receive an ACA, as in option ACA4. Essex and East Sussex County Councils were among several respondents who currently received an ACA and argued that the lower limit was currently too high and should be lowered or removed.

A number of authorities had previously complained about the current geography for setting the ACA, and had suggested the calculation of ACA at a separate upper tier authority level, and then smoothing the result of this calculation by averaging the ACA factors of neighbouring authorities. If we were to do this we would have to consider another method of setting the lower limit.

The consultation paper asked for opinions on calculating the ACA at this level, and set out two options for setting the lower limit if this was adopted.

*Question 31: Do you think that we should calculate a separate ACA factor for each upper tier authority?*

Number agreeing proposal: 91 (25% of total responses)

Number rejecting proposal: 112 (30%)

The balance of opinion was narrowly against this option. Those responses which were against this change, mostly said that the geography of upper tier councils did not reflect their labour market, and that this suggestion would unacceptably increase the complexity of the ACA. ANEC, the ALG and 21 London Boroughs were included in those against this change.

The representations favouring this approach were from a very broad array of councils. These included SIGOMA, a number of police and fire authorities, several counties and several unitary councils representing urban centres in rural counties, such as York, Brighton or Derby. This move was also supported by councils in city centres like Westminster and Manchester.

However, among those who supported this fine geography for the ACA, there was strong disagreement about where the lower limit should be set in any new system. 40 of those who recommend a separate ACA for each upper tier council advocated raising the lower limit substantially - as in option ACA4. A further 40 recommend retaining the current lower limit - as in option ACA5. 4 further responses from those in support of this change advocated the abolition of the lower limit altogether.

Finally, a couple of responses recommended changes to the geography of the ACA in preference to the consultation options. Rushmoor Borough Council would like the ACA calculated separately for each shire district, and Barking and Dagenham would form a new ACA area with Newham, if the current ACA geography were to be retained.

*Question 32: If we implement the change above, which option for setting the lower limit do you prefer?*

*Option ACA4*

Number supporting: 92 (25% of total)

Number rejecting: 45 (12%)

*Option ACA5*

Number supporting: 85 (23%)

Number rejecting: 49 (13%)

Responses to this question were finely balanced, and followed a strong geographic pattern. Areas currently in the lower limit, or that receive only a small ACA top up, favoured ACA4. These were generally concentrated in the far South West, Midlands and the North, and included SPARSE, SIGOMA and ANEC.

Councils which currently received an ACA top up generally backed ACA5 which retains the current lower limit. No local authority groupings backed ACA5.

## Chapter 14

### Additional Resource Equalisation

The current grant distribution system takes account of the relative ability of different councils to raise council tax – this is known as ‘resource equalisation’. In 2005/06 the average actual council tax was 10% higher than the assumed national council tax in the system, therefore the Government proposed in the consultation paper that resource equalisation should be updated to better reflect the actual position.

The consultation paper asked whether resource equalisation should be updated, and if so, which of three options for its recalculation would be preferred.

*Question 33: Do you think we should increase resource equalisation?*

Number agreeing that increase is needed: 91 (25% of total)

Number disagreeing: 123 (33%)

The majority of respondents were against increasing resource equalisation. Those against the increase in resource equalisation questioned whether resource equalisation was necessary at all, and doubted whether it achieved its aim of targeting grant towards high needs, low council tax authorities.

Many of those in favour of increasing resource equalisation were of the opinion that it should be increased on a regular basis to ensure that it stayed in line with actual council tax levels, some even stated that it should be updated annually.

*Question 34: Which of the options do you prefer?*

*Option RE1 – full resource equalisation*

Number in favour: 53 (14%)

Number against: 30 (8%)

*Option RE2 – half resource equalisation*

Number in favour: 14 (4%)

Number against: 34 (9%)

*Option RE3 – full resource equalisation with abolishing interest receipts*

Number in favour: 45 (12%)

Number against: 34 (9%)

Of those respondents in favour of resource equalisation, the majority preferred that full resource equalisation should take place. A slight majority preferred that full resource equalisation along with the abolition of the interest receipts elements (referred to in Chapter 12) should be implemented. Those preferring half resource equalisation generally preferred this as the least ‘damaging’ option for their individual authority.

## Chapter 15

### Floor Damping

Under the current system, all authorities are guaranteed a minimum grant increase on a like for like basis against the previous year' grant level. This is known as the 'floor'. To pay for the floor, all authorities with increases above the floor have their grant scaled back slightly.

When floors were first introduced, Government also introduced a maximum grant increase level – a 'ceiling'. Authorities who were then at the floor or at the ceiling, complained that they received no additional grant if they increased their borrowing. Therefore, an adjustment was introduced to allow funding in recognition of capital borrowing to flow through.

Ceilings were abolished in 2005/06. As the system stands, floor authorities already receive more grant than they would have done had the floor damping system not been in place. Government, therefore, considers that the capital adjustment could now be removed, and opinion on this was sought in the consultation document.

Two new options for the funding of the floor were also published in the consultation document. Respondents were asked for their preference between the existing system of scaling back grant from all authorities above the floor, a damping scheme based on taxbase (option DMP2), or a damping scheme based on a basic amount per head (option DMP3).

*Question 35: Do you consider that the capital adjustment should be abolished?*

Number agreeing proposal: 138 (37% of total)  
Number opposing proposal: 58 (16%)

*Question 36: Which approach for paying for damping do you prefer (ie the existing method, DMP2 or DMP3)?*

*Existing method of floor damping*  
Number supporting: 106 (29%)  
Number opposing: 1 (0%)

*Option DMP2*  
Number supporting: 47 (13%)  
Number opposing: 28 (8%)

*Option DMP3*  
Number supporting: 32 (9%)  
Number opposing: 22 (6%)

Overall, respondents were content that the capital adjustment should be removed from the damping system. And the existing method of paying for the floor was preferred to either of the new mechanisms proposed.

A number of those preferring that retention of the capital adjustment in the system made the comment that it was essential that the damping mechanism provided adequate protection to authorities to meet overall expenditure increases. This should include sufficient money to meet capital spending. In particular, several authorities were concerned about support for capital spending under the 'Building Schools for the Future' scheme.

Several respondents argued that any money needed to run a damping mechanism should be provided separately, not taken from others' formula grant allocations. And option DMP2 was considered by a number of respondents to be simply another form of resource equalisation.

## Chapter 16

### Data

This chapter looked at updating the data used in the grant distribution system for day visitors. The day visitors indicator is used in a number of the FSS formulae, where visitor numbers would affect the need to spend, such as the EPCS block, Police and Highways Maintenance. The indicator used in the existing system has not been updated since 1993. As the indicator is modelled, research has been undertaken to update the indicator to include up-to-date data and to amend the modelling process where necessary. The consultation document gave details of the updated indicator and asked whether respondents would be content for the new indicator to be introduced into the system.

*Question 37: Would you prefer us to use the new day visitors indicator?*

Number supporting new indicator: 103 (28%)

Number rejecting new indicator: 107 (29%)

Opinions were evenly split as to whether to use the new data or not. It was generally agreed that an update to the data was long overdue, but there were a number of concerns with the new data. Many authorities believed that the new data were unreliable, and so the indicator could not be robust. The results of the new indicator were in some cases counter-intuitive. Even a number of those who agreed to the inclusion of the new data completed their response with a proviso that the data should be proved to be reliable before going ahead with its introduction. Many of the authorities who rejected the indicator gave support for further research to be undertaken.