

# Chapter 1

## Introduction

### *Coverage*

1. This consultation covers all local authorities in England who currently receive grant via the Formula Spending Share system. Police authorities in both England and Wales who receive grant via this system are also covered.

### *Background*

2. Approximately 25% of public spending in England takes the form of spending by local authorities on services they provide. Most of this money is distributed as grant from central government, with the balance being raised locally via council tax. The Formula Grant Distribution System is concerned with the distribution of a large part of this grant from central government to local authorities, known as Formula Grant.

3. The Formula Grant Distribution System was last reviewed for the 2003/04 local government finance settlement. Since then, the distribution formula has remained frozen for a period of three years, in order to provide local authorities with some stability in their funding. This three year formula freeze came to an end with the 2005/06 settlement.

4. During the formula freeze period, we have been working with local government and other interested parties to consider possible changes to the formulae which could be introduced once the freeze had ended. This paper provides the basis for a full consultation on options for formula changes that could be introduced from the 2006/07 settlement onwards.

5. The system divides up the finite pot of available grant (which is determined in the biennial spending reviews) by reference to authorities' relative circumstances and their ability to raise council tax. At present the system is based on a number of mathematical formulae covering seven service 'blocks'. These blocks are:

- Education;
- Personal Social Services (PSS);
- Police;
- Fire;
- Environmental, Protective and Cultural Services (EPCS);
- Highways Maintenance; and
- Capital Finance.

6. However, since the last formula review, it has been decided that funding for schools should be taken out of the Formula Grant System and be paid as

Dedicated Schools Grant direct from the Department for Education and Skills. This will come into effect in 2006/07. Therefore, references to the education block throughout this document refer only to that portion remaining once the schools funding has been removed – currently known as the LEA Block.

7. There is a separate chapter in this consultation paper about the transfer of schools funding, which explains how the transfer has been exemplified for the purposes of this consultation.

### ***History of technical work***

8. Following the last review of grant distribution formulae, the Settlement Working Group was formed to consider how the formulae might be updated and modernised once the formula freeze was lifted. The Settlement Working Group consists of representatives from all types of local authority in England along with interested parties from central Government.

9. Separate technical groups were also set up to look at the formulae for the Police and Fire funding blocks. Discussions within the Police and Fire formula groups were fed back into the Settlement Working Group for consideration within overall discussions.

10. Papers and minutes from these groups are available on the websites of the Office of the Deputy Prime Minister (<http://www.odpm.gov.uk/>), and the Home Office (<http://www.homeoffice.gov.uk/>).

### ***Aims***

11. The aim of this review is 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. That will include, among other things, adaptations to make the system more forward looking. The Government recognises that any system based on formulae cannot reflect all possible circumstances, so there will inevitably be an element of rough justice: and that the technical nature of the issues means that there is frequently no clear cut optimum solution, so pragmatic decisions will be needed to produce a workable system.

### ***Options***

12. This consultation document contains options for each of the components of the grant distribution system. These are the seven blocks listed above, other formulae included in the present method of grant calculation, plus matters of overall context affecting the arrangements for distribution of Formula Grant:

13. There are sections containing options on each of these issues, together with details of how each option would affect individual authorities. The Government believes that the options in this paper could be used to update the Formula Grant Distribution System. However, the options here may be further refined following consultation. Respondents may also propose new

options. **Therefore, the components of the new formulae may not necessarily be drawn from the list contained here.**

### ***Construction of exemplifications***

14. The exemplifications shown in this document are constructed by re-running the 2005-06 settlement as though a sum representing funding for schools had already been removed from the system, and the particular formula option in question had been in place for that year.

15. Apart from the removal of schools funding, as described in Chapter 2 of this document, other elements of the 2005-06 settlement - such as the data used in the formula, and (in the case of the service blocks) the Area Cost Adjustment - are unchanged from 2005-06, except where stated.

16. The outcome of each option is normally expressed in terms of change from the 2005-06 settlement in £ million and percentage of total FSS (after removal of a sum representing schools funding). Total FSS is used so that the figures are comparable from one service to another. There are some exceptions, where circumstance means that grant is used instead of spending. The figures for both amounts and percentages have been rounded to one decimal place.

17. Outcomes are not shown for those authorities who are not responsible for delivering the service in question. For example, shire districts in two-tier areas are not included in the education exemplifications, since they are not responsible for the provision of education services.

### ***Limitations of exemplifications***

18. Constructing exemplifications by re-running the 2005-06 settlement in the way described above gives the best possible illustration of the effects of each option at the present time. However, the detailed effects of options in the context of the 2006-07 settlement would be different. This is partly because the totals for the various formula spending blocks and grant may have changed due to transfers of funding, additional to the schools funding transfer. We will also be using updated data.

### ***How to respond***

19. The Government would like your views on which of the options presented here should go to updating and modernising the grant distribution system. We would also welcome any alternative proposals. Specific questions are posed at the end of each chapter, before the tables of exemplifications.

20. We welcome responses submitted electronically. Please send responses by e-mail to: [formulagrantsreview@odpm.gsi.gov.uk](mailto:formulagrantsreview@odpm.gsi.gov.uk).

21. If you are not able to respond by e-mail, please send your response to:

Ms Arvind Thandi  
Formula Grant Review Team  
Office of the Deputy Prime Minister  
Zone 5/G5  
Eland House  
Bressenden Place  
London  
SW1E 5DU

22. Alternatively, responses may be faxed to 020 7944 2963.

23. **Responses should reach us by 10<sup>th</sup> October 2005.**

### ***Confidentiality***

24. All information in responses, including personal information, may be subject to publication or disclosure under freedom of information legislation. If a correspondent requests confidentiality, this cannot be guaranteed and will only be possible if considered appropriate under the legislation. Any such request should explain why confidentiality is necessary. Any automatic confidentiality disclaimer generated by your IT system will not be considered as such a request unless you specifically include a request, with an explanation, in the main text of your response.

### ***Queries***

25. If you have any questions about this publication or require paper copies of the consultation document, please contact our enquiry line on 020 7944 8841, or e-mail [formulagrants.review@odpm.gsi.gov.uk](mailto:formulagrants.review@odpm.gsi.gov.uk).

### ***Summary of Responses***

26. A summary of responses to this consultation will be published by 31<sup>st</sup> December 2005 at the following address [www.local.dopm.gov.uk](http://www.local.dopm.gov.uk). Paper copies will also be available on request.