

Chapter 14

Additional Resource Equalisation

The Current System

254. The grant distribution system takes account of the relative ability of different councils to raise council tax (known in the jargon as "resource equalisation"). We currently do this by setting, for grant distribution purposes only, an assumed average national level of council tax. In 2005/06 the average band-D council tax in England was £1,214. ANCT was assumed to be £1,102. Therefore the average council tax was 10% above the assumed level of council tax.

255. Greater resource equalisation would distribute more grant towards high needs, low council tax base authorities. So there is an equity, rather than a strictly technical argument for increasing resource equalisation. Under the current system, we would give effect to greater resource equalisation by increasing the assumed national council tax and, because we are not actually distributing any more grant, the total of Formula Spending Shares.

256. The following adjustments were made to the FSS control totals for the additional resource equalisation in 2003/04.

Service	£ million uplift
Education	0.000
Personal Social Services	1,100.000
Police	569.283
Fire	195.000
Highway Maintenance	-40.000
Environmental, Protective and Cultural Services	2,230.000
Capital Financing	-40.000

257. From 2003/04 onwards outturn Net Revenue Expenditure (NRE) by service has been compiled on an FRS17 basis. (This measures pension costs as the increase in pension liabilities that have accrued during the year.) This is not consistent with RO data for 2000-01 on which the previous additional resource equalisation amounts were based. Here pension costs are recorded on a cash basis, i.e. employers' pension contributions for funded and notionally funded schemes and pensions paid for unfunded schemes.

258. We have attempted to adjust the 2003-04 data so that it is consistent with earlier years. We are confident in the adjustment for NRE in total, but the adjustment has been apportioned between services, so the adjusted NRE for each service is only an estimate. However, it is worth noting that police and fire are dominated by single purpose authorities and here all the FRS17 adjustments will be allocated to police or fire as appropriate.

2003/04	Formula Spending Shares + Police Grant	Net Revenue Expenditure	Difference	% Difference
Education	25,013.909	24,999.161	-14.748	-0.1%
PSS	11,170.994	12,337.700	1,166.706	10.4%
Police	8,230.791	8,476.821	246.030	3.0%
Fire	1,777.600	1,818.770	41.170	2.3%
Highway Maintenance	1,954.235	1,349.686	-604.549	-30.9%
EPCS	11,570.401	11,603.769	33.368	0.3%
Capital Financing	2,269.257	1,210.938	-1,058.319	-46.6%
TOTAL	61,987.187	61,796.845	-190.342	-0.3%

259. A comparison of Net Revenue Expenditure with Standard Spending Assessments/Formula Spending Shares has not been published for some time because:

- Formula Spending Shares and, for the last few years, Standard Spending Assessments are used as a basis for calculating grant only. They are not intended to be the Government's assessment of how much an authority should spend on a particular service;
- Authorities rated as 'excellent' in the Comprehensive Spending assessments are now able to use ring-fenced grants (other than those paid direct to schools) for any purpose;
- The increasing number and size of specific formula grants, which do not have to be spent on a particular service, makes it difficult to calculate NRE accurately by service block; and
- Calculation of Net Revenue Expenditure by service used to include the apportionment of Capital Expenditure from the Revenue Account (CERA) to different service blocks. This was done according to a formula, as local authorities were not able to provide an accurate split.

260. Looking at the comparison of Net Revenue Expenditure and Formula Spending Shares in 2003/04 it can be seen that only the Personal Social Service, Police and Fire control totals are less than the total Net Revenue Expenditure for that service. Looking in more detail at Personal Social Services expenditure in 2003/04 can be broken down as follows:

	Net Expenditure (£ million)
Strategy	100
Children	4,000
Older People	5,600
Physical Disability Adults	1,000
Learning Disability Adults	2,100
Adults with Mental Health needs	800
Asylum Seekers	400
Other Adults	200
Total	14,200

Options for Change

Full Additional Resource Equalisation

261. We have changed the Formula Spending Share control totals as follows.

Service	2005/06 Settlement Control Totals (£ million)	New Control Totals (£ million)	Change (£ million)
Personal Social Services	13,567.244	15,202.244	1,635.000
Children's	4,015.257	4,625.257	610.000
Older People's	5,871.986	6,321.986	450.000
Younger Adults	3,680.001	4,255.001	545.000
England & Wales Police	4,798.019	5,155.914	357.895
Fire	1897.600	1,952.600	55.000

Half Additional Resource Equalisation

262. We have changed the Formula Spending Share control totals as follows.

Service	2005/06 Settlement Control Totals (£ million)	New Control Totals (£ million)	Change (£ million)
Personal Social Services	13,567.244	14,369.744	802.500
Children's	4,015.257	4,320.257	305.000
Older People's	5,871.986	6,096.986	225.000
Younger Adults	3,680.001	3,952.501	272.500
England & Wales Police	4,798.019	4,976.966	178.947
Fire	1897.600	1,925.100	27.500

Full Additional Resource Equalisation and Abolishing the Interest Receipt Blocks

263. We have changed the Formula Spending Share control totals as follows.

Service	2005/06 Settlement Control Totals (£ million)	New Control Totals (£ million)	Change (£ million)
Personal Social Services	13,567.244	14,512.244	945.000
Children's	4,015.257	4,375.257	360.000
Older People's	5,871.986	6,136.986	265.000
Younger Adults	3,680.001	4,000.001	320.000
England & Wales Police	4,798.019	5,008.545	210.526
Fire	1897.600	1,932.600	35.000
Interest on reserved receipts	-367.000	0.000	367.000
Other interest receipts	-451.000	0.000	451.000

Summary of Options

Option RE1

Full additional resource equalisation.

Option RE2

Half additional resource equalisation.

Option RE3

Full additional resource equalisation with abolishing interest receipts.

Questions

264. We would like your views on:

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

Question 34: Which of the options do you prefer?