

# Chapter 15

## Floor Damping

### *The Current System*

265. Under the current system formula grant before floors is calculated for each authority according to the following formula:

$$\text{Formula Grant before Floor Damping} = \text{FSS} - \text{Taxbase} * \text{ANCT} * \text{SANCT} + \text{Police Grant}$$

where:

FSS = Formula Spending Shares i.e. an authorities relative need to spend on services;

Taxbase = Band D equivalent council tax base for Revenue Support Grant purposes - for more information see Annex C of the Local Government Finance Report (England) 2005/06;

ANCT = Assumed National Council Tax. This is calculated as follows:

$$\text{ANCT} = (\text{Total FSS for all authorities} - \text{Distributable Amount} - \text{Revenue Support Grant for all authorities}) / \text{England Taxbase}$$

SANCT = Share of ANCT for each class of authority. Since in all areas of England council services are supplied by more than one type of authority ANCT has to be divided between authorities supplying services in an area. The table at Annex B of the Local Government Finance Report (England) 2005/06 shows the share of ANCT for each class of authority in 2005/06.

266. Once formula grant before floors has been calculated we then work out what the year-on-year increase in formula grant is for floor damping purposes.

267. The starting point of these calculations is the adjusted formula grant for the previous year i.e. formula grant for the previous year adjusted for changes in funding and function between the previous year and the current year. In 2005/06 two adjustments were then made to this amount to calculate the base position for floors and ceilings. These were:

- the Amending Report adjustment; and
- the capital adjustment.

258. The Amending Report adjustment is calculated as follows:

- a) 2003/04 Formula Grant under the Amending Report minus 2003/04 Formula Grant

b) Whichever is greater of minus a) or 0.

259. The capital adjustment is calculated as follows:

a) From the 2004/05 Settlement:

$$(2004/05 \text{ SCE(R)s} * 0.5 + 2003/04 \text{ Credit Approvals} * 0.98 + 2002/03 \text{ Credit Approvals} * 0.94) * \text{Interest Rate} + (2003/04 \text{ Credit Approvals} + 2002/03 \text{ Credit Approvals} * 0.96) * 0.4$$

b) From the 2005/06 Settlement:

$$(2005/06 \text{ SCE(R)s} * 0.5 + 2004/05 \text{ SCE(R)s} * 0.98 + 2003/04 \text{ Credit Approvals} * 0.94) * \text{Interest Rate} + (2004/05 \text{ SCE(R)s} + 2003/04 \text{ Credit Approvals} * 0.96) * 0.4$$

c)  $(\text{NNDR in 2005/06} + \text{Revenue Support Grant before Floors in 2005/06}) / \text{Total FSS in 2005/06}$

d)  $[(b) - a] * c)$

e) Whichever is greater of d) or 0.

260. The floor amount for each authority is then calculated as the base position \* floor or, for education authorities, the greater of the base position \* floor or base position + increase in Schools FSS i.e. the education passporting guarantee.

261. Every authority is guaranteed at least its floor amount. In order to pay for this authorities above the floor have their percentage grant increase above the floor scaled back by a constant scaling factor. There is a separate scaling factor for each of the four floor groups i.e.

- Education/PSS authorities;
- Single-service police authorities;
- Single-service fire authorities; and
- Shire Districts.

### ***Abolition of the capital adjustment***

262. Floors and ceilings were first introduced for education/PSS authorities in 2001/02. Authorities at both the floor and the ceiling complained that they received no increase in grant if they increased their borrowing. Ministers accepted this argument and in 2002/03, when floors and ceilings were introduced for all authorities, the first capital adjustment was introduced. This compared the Debt Charges SSA in 2002/03 to the Debt Charges SSA in 2001/02. If there was an increase in the Debt Charges FSS then the capital adjustment was calculated as:

$$\text{Increase in Debt Charges SSA} * (\text{NNDR in 2002/03} + \text{RSG before Floors in 2002/03}) / \text{Total SSA in 2002/03}$$

263. Some authorities argued that this form of capital adjustment penalised those authorities with large outstanding debt as at 1 April 1990. The debt charges adjustment was changed to its present form in 2003/04.

264. In 2005/06 Ministers abolished the ceiling. Authorities therefore now fall into two groups: floor authorities or scaled authorities i.e. those above the floor that help to pay for the floor.

#### *Floor authorities*

265. Formula grant before floors ensures that if all authorities spent at FSS, then council tax payers in all areas of the country would pay the same level of council tax depending on their council tax band i.e. it is said to equalise for needs and resources. Support for capital expenditure is covered by the Debt Charges FSS and authorities therefore receive support for additional capital expenditure within their formula grant before floors.

266. Floor authorities receive additional grant above this level to ensure that they receive a year-on-year increase in grant equal to the floor. They would therefore be able to set council tax below the national average if all authorities spent at FSS.

267. Given this is it reasonable to argue that such authorities should receive additional grant to support capital expenditure?

#### *Authorities above the floor*

268. Authorities above the floor only have their grant above the floor scaled back and therefore to this extent they benefit from the capital adjustment. However the scaling factor for such authorities would be less if the floor was less costly i.e. if the capital adjustment was removed for floor authorities.

#### ***Alternative approaches to paying for the floor***

269. Since damping must be cost neutral it follows that authorities that are above the floor must pay for this. In the current system we scale back authorities grant above the floor in order to achieve this. However this is not the only option.

#### *Damping based on taxbase*

270. Another way of raising money to pay for the floor is to raise the Assumed National Council Tax (ANCT). In this system damping is paid for by all authorities; it is not split into separate floor groups.

#### *Damping based on the basic amount per head*

271. In order to pay for the floor increases the basic amount per head is decreased evenly across all authorities. The four separate floor groups are retained under this system and each works independently with respect to damping.

### **Summary of options**

#### *Option DMP1*

Abolishing the capital adjustment.

#### *Option DMP2*

Damping based on taxbase

#### *Option DMP3*

Damping based on basic amount per head

### **Questions**

272. We would like your views on:

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

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