

Chapter 3

New Grant Systems

Background

44. For at least twenty years, the formula grant distribution system has made use of notional figures for spending, both by service and by individual authority; and for council tax, both nationally and for groups of authority depending on the range of services they deliver. But it is questionable whether, in a system whose sole purpose is distributing grant, such assumptions really have a role. And it is certainly true that over the years these figures have been used for a variety of purposes, such as spending or tax targets, for which they were neither intended nor suitable. The Government sees merit in considering replacement grant distribution systems that do not contain such figures.

45. Following on from the consultation on three year settlements, we have been exploring a range of possible grant systems that would focus on grant, that is by not containing notional measures of spending and council tax. Simplified systems were not generally welcomed in that consultation, and a model comprising three blocks (where settlement mainly depended on a flat rate increase on the previous year, plus comparatively small top ups on relative need and resource capability) does not model existing grant distribution in 2005/06 well.

46. This consultation paper therefore focuses on the "four block" model which contains substantial elements on relative needs and resources. The introduction of this model need not of itself change grant distribution by comparison with an FSS based model.

Description

47. The system is based on four blocks of cash:

- the relative needs block;
- the resource block;
- the basic amount block; and
- the damping block

Totals

48. Spending Reviews would publish figures for total formula grant. In operating the distribution, there would be no distinction between redistributed business rates and Revenue Support Grant - although as statute currently obliges us to provide separate figures for each council, we would break down their overall grant amount pro rata.

49. Spending Reviews would also publish figures for the proportions of relative needs between the seven blocks. So in year 1 the total needs will be set to 1. This will then be split between education, PSS, police, fire, highway maintenance, EPCS and capital financing. If we had expressed 2005/06 in this way it would have looked as below:

Block	2005/06 Control Totals	New way of expressing control totals
Education	27,876.070776	0.434339
Personal Social Services	13,567.244000	0.211393
Police	4554.299000	0.070961
Fire	1,897.000000	0.029557
Highway Maintenance	2,053.685000	0.031999
EPCS	11,384.582000	0.177384
Capital Financing	2,846.856000	0.044357
Total	64,180.336776	1.000000

50. In year 2, the control total will be set, for example, at 1.025, where 2.5% is the increase in the relative needs amount in year 2. A similar methodology would then be applied in year 3.

51. The relative size of the totals of the relative needs block and resources block would be set by judgement.

Distribution

52. Each authority's cash allocation would be the total of its (relative needs block + resource block + basic amount block + damping block).

53. The relative needs amount would be allocated using formulae similar to FSS, although the outcome would be expressed as proportions of total need.

$$\sum_{services} \sum_{needs} relative_needs = 1$$

54. The relative needs formulae could then be grouped together according to the authorities that provide these services. We would therefore need six groups at present:

- a. upper-tier services i.e. education, PSS, highway maintenance, county-level EPCS and continuing EA levies
- b. lower-tier services i.e. district-level EPCS
- c. police services
- d. fire services
- e. mixed-tier services i.e. flood defence, coast protection and fixed costs
- f. all authorities i.e. capital financing

55. For each of these groups we would find the minimum amount per head across authorities. An authority's relative needs amount would then be set, for each of the six groups, proportional to the sum of needs above the minimum. The sum of the relative needs amount across all authorities will equal the relative needs control total.

56. To allocate the resources amount, we would first need to split taxbase between the four service tiers i.e. upper-tier, lower-tier, police and fire. The taxbase for each authority would then be split between these tiers as appropriate; therefore, county councils which do not provide fire services would only receive an amount of taxbase for upper-tier services, whilst county councils which do provide fire services would receive an amount of taxbase for upper-tier services and an amount of taxbase for fire services.

57. The maximum amount per head for each of these taxbase service splits would be calculated. The resources amount would then be set proportional to the sum of resources required to reach the maximum for each of the four groups. The sum of the resource amount across all authorities will equal the resource control total.

58. The basic amount will be calculated from the minima used in the needs block and the maxima used in the resource block. The control total will be set equal to (total amount of grant – relative needs control total – resource control total).

59. The damping block would calculate the changes to the grant required to ensure that all authorities receive at least the floor increase year-on-year.

60. A model of this system for 2005/06 was given at Annex A of Settlement Working Group paper SWG/05/54 (see <http://www.local.odpm.gov.uk/finance/0607/swg0505/swg-05-54 Annex A.xls>)

Questions

61. We would like your views on:

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