

Methodology for Floor Damping in the 2006/07 Local Government Finance Settlement

Introduction

1. This paper sets out the methodology and financing for the floor damping schemes in the 2006/07 Local Government Finance Settlement.

Which authorities does the scheme apply to?

2. Floor damping will operate for all authorities in the 2006/07 Local Government Finance Settlement. Authorities will again be split into four groups as follows:
 - authorities with responsibility for education and personal social services (“education/PSS authorities”);
 - police authorities (except the City of London and the Metropolitan Police Authority) and the Greater London Authority (police part);
 - fire authorities (except the London Fire and Civil Defence Authority) and the Greater London Authority (fire part); and
 - shire districts in two tier shire areas (i.e. those shire districts which do not have responsibility for education and personal social services).
3. The floor element of the scheme guarantees that no authority will get less than the floor increase in formula grant support from central government. (Formula grant comprises Revenue Support Grant, Redistributed Business Rates, and Principal Formula Police Grant, including the special payment to the Greater London Authority).
4. The floor element therefore represents a ‘cost’ to the system (which is the amount of grant needed to bring all the authorities below the floor up to the level of the floor).

Financing

5. The floors damping system will be self-financing within each group of authorities. Authorities in one group will not cross-subsidise the floor for authorities in another group.

Adjustments

Transfers

6. The floors damping scheme will be based on a 'like-for-like' comparison of formula grant between the Amended 2005/06 baseline and 2006/07, i.e. adjusting for the transfers into and out of the settlement. The adjusted amended 2005/06 grants resulting from these transfers are detailed in the '*Adjusted Amended 2005/06 Formula Spending Shares and Formula Grant*' paper.
7. In deriving the floor for an authority the adjusted amended 2005/06 formula grant amount may be uplifted in two ways. The first is an adjustment in respect of grant losses from the 2004/05 Amending Report. The second is an adjustment in respect of grant losses from the 2005/06 Amending Report. Authorities may benefit from either or both of these adjustments.

Amending Report Adjustments

8. Adjustments have been added this year to ensure that authorities that are adversely affected by the proposed 2004/05 and 2005/06 Amending Reports still receive an increase in formula grant year-on-year at least as big as the floor guarantee.

2004/05 Amending Report Adjustment

9. For those authorities that receive less grant under the proposed 2004/05 Amending Report than they did from the 2004/05 Finance Report, the absolute difference is added to the total of their adjusted 2005/06 amended formula grant.
10. For those authorities that receive more grant under the proposed 2004/05 Amending Report than they did from the 2004/05 Finance Report, the basis of comparison for calculating the floor increase will be their 2005/06 adjusted amended formula grant amount.

2005/06 Amending Report Adjustment

11. For those authorities that receive less grant under the proposed 2005/06 Amending Report than they did from the 2005/06 Finance Report, the absolute difference is added to the total of their 2005/06 adjusted amended formula grant plus their 2004/05 Amending Report Adjustment, if any.
12. For those authorities that receive more grant under the proposed 2005/06 Amending Report than they did from the 2005/06 Finance Report, the basis of comparison for calculating the floor increase will be their 2005/06 adjusted amended formula grant amount plus their 2004/05 Amending Report Adjustment, if any.

The scheme for Education/PSS Authorities

13. The floor level for education/PSS authorities has been set at 2.0% in 2006/07.
14. The reduction in grant for authorities above the floor is calculated by applying a constant re-scaling factor to each authority's increase in grant above their floor level (not their total grant increase). This re-scaling factor is approximately 0.155 for education/PSS authorities in 2006/07.
15. The re-scaling factor is calculated so that when it is applied to all authorities within the group, the saving exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
16. The following table provides a summary of the financing of the floor damping system for education/PSS authorities.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	2.00%	361.910	71
Scaled	-84.50%	-361.910	79

17. Annex A is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by a reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

The scheme for Police Authorities

18. The floor level for police authorities has been set at 3.10% for 2006/07. This means that all police authorities are receiving approximately the average increase.
19. The reduction in grant for authorities above the floor is calculated by applying a constant re-scaling factor to each authority's increase in grant above the floor level (not their total grant increase). This re-scaling factor is approximately 0.028 for police authorities in 2006/07.
20. The re-scaling factor is calculated so that when it is applied to all authorities within the group, the saving exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.

21. The following table provides a summary of the floor damping system for police authorities.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	3.10%	128.109	21
Scaled	-97.16%	-128.109	17

22. Annex B is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by the reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

The Scheme for Fire Authorities

23. The floor level for fire authorities has been set at 1.5% in 2006/07.
24. The reduction in grant for the scaled authorities is calculated by applying a constant re-scaling factor to each authority's increase in grant above the floor level (not their total grant increase). This re-scaling factor is approximately 0.128 for fire authorities in 2006/07.
25. The re-scaling factor is calculated so that when it is applied to all fire authorities, the saving from the scaled authorities exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
26. The following table provides a summary of the floor damping system for fire authorities.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	1.50%	26.449	9
Scaled	-87.18%	-26.449	22

27. Annex C is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by a reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

The scheme for Shire Districts

28. The floor level for shire district authorities which do not have responsibility for education/PSS has been set at 3.0% for 2006/07.
29. The reduction in grant for the scaled authorities is calculated by applying a constant re-scaling factor to each authority's increase in

grant above the floor level (not their total grant increase). This re-scaling factor is approximately 0.490 for shire districts in 2006/07.

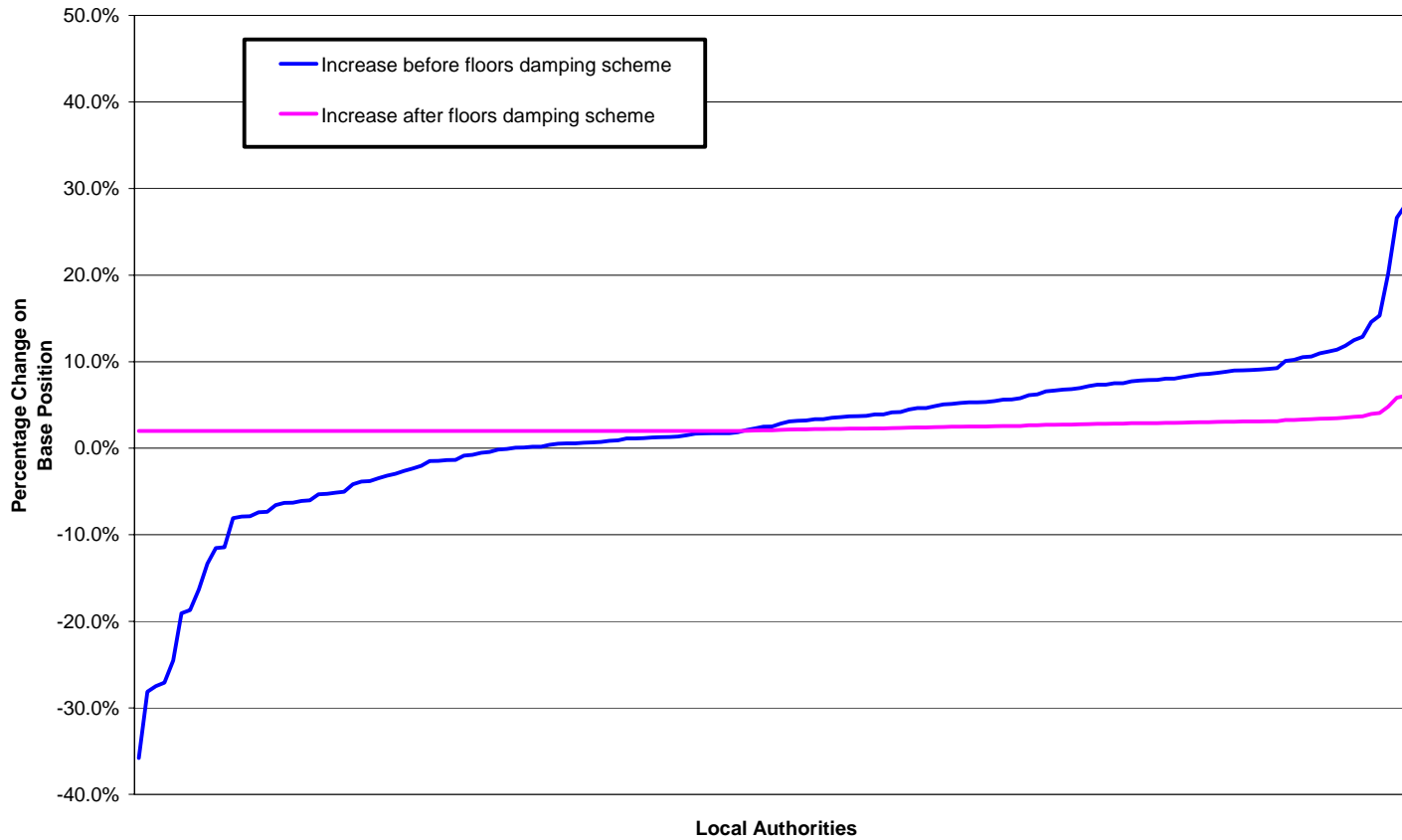
30. The re-scaling factor is calculated so that when it is applied to all authorities within the group, the saving exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
31. The following table provides a summary of the floor damping system for shire districts.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	3.00%	29.185	84
Scaled	-50.96%	-29.185	154

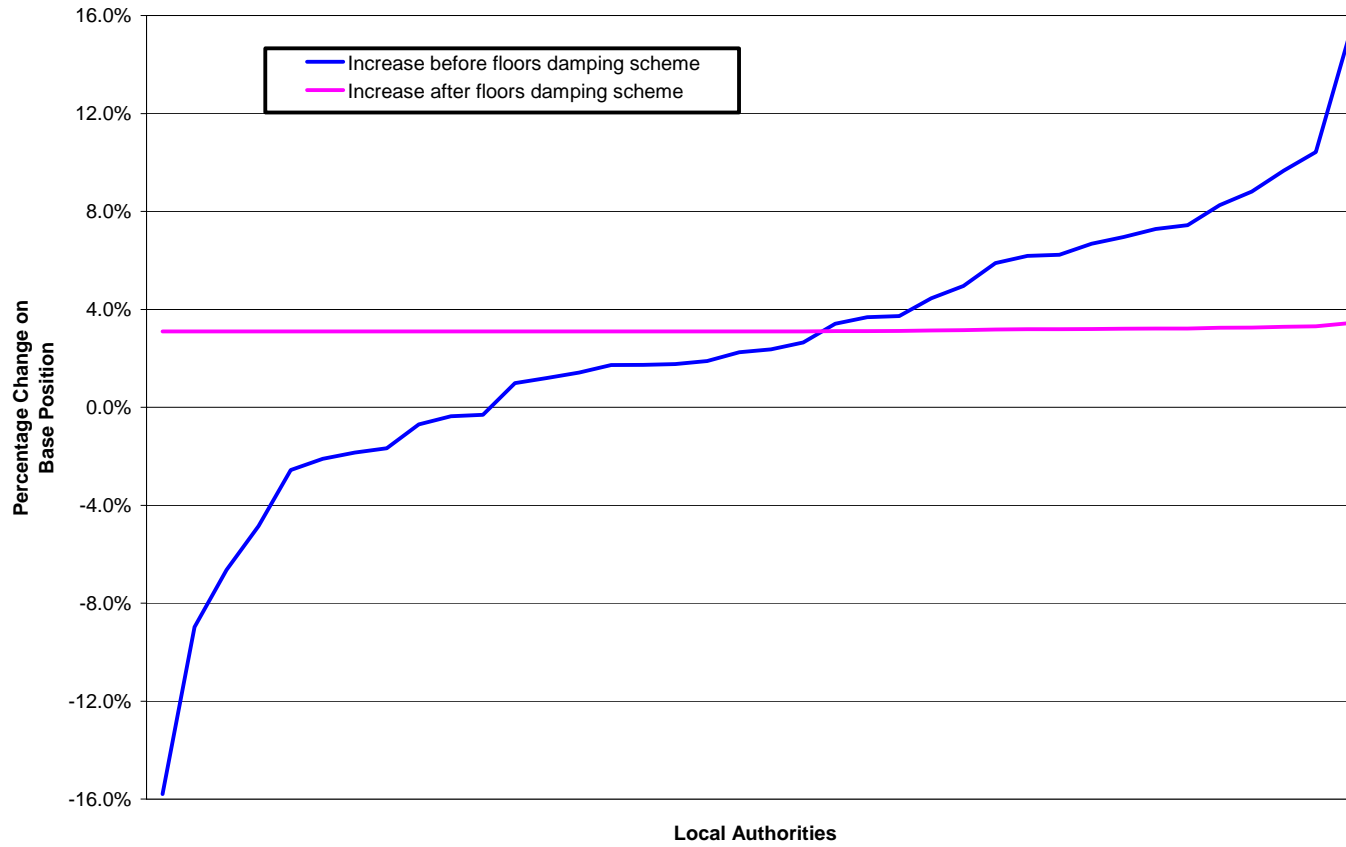
32. Annex D is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by the reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

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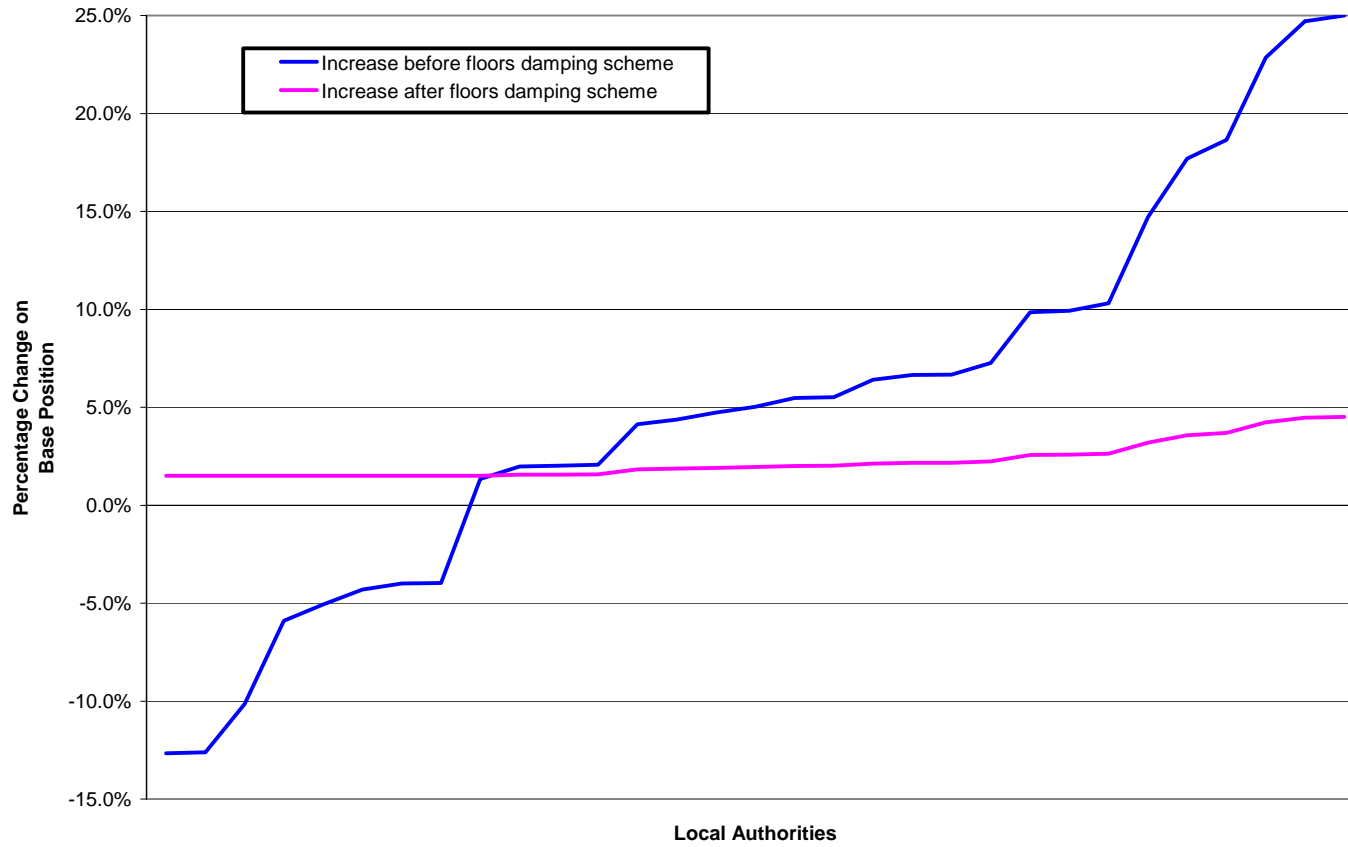
**2006/07 Floor Damping Scheme for Education/PSS Authorities:
2.0% floor**



**2006/07 Floor Damping Scheme for Police Authorities:
3.1% floor**



**2006/07 Floor Damping Scheme for Fire Authorities:
1.5% floor**



**2006/07 Floor Damping Scheme for Shire Districts:
3.0% floor**

