

# **Consultation on Formula Grant Distribution**

## **Summary of Representations**

### **Background**

This document represents an analysis of all the responses received to the consultation exercise looking at possible options for updating and modernising the Formula Grant Distribution System.

The current grant distribution formulae were introduced in 2006-07 following a review of all aspects of the grant distribution system, specifically to make the system more compatible with the Government's policy on three-year settlements. An extensive consultation exercise took place in 2005, following the technical review. The new formulae were introduced for the first multi-year settlement covering the 2006-07 and 2007-08 financial years.

Discussions and research on options for changes to the formula have been ongoing since 2006-07, and detailed technical discussions within the Settlement Working Group and Police Allocation Formula Working Group have involved representatives from both local and central government.

### **The Scope of the Consultation Paper**

The aim of this review was to update and fine-tune the existing system for the distribution of formula grant that will be fit for use in the context of the first full three-year settlement.

We followed up the work undertaken by the Settlement Working Group and Police Allocation Formula Working Group by publishing on 17 July 2007 a public consultation document setting out the Government's proposals for updating and modernising the grant distribution formulae.

This consultation document contained options for a number of the components of the grant distribution system. These include a number of the service block formulae, other formulae included in the present method of grant calculation, and matters of overall context affecting the arrangements for distribution of Formula Grant.

The consultation paper set out separate chapters containing options on individual issues, in most cases also giving details of how each option would affect individual authorities. Respondents were also invited to propose new options for consideration within the consultation.

The consultation ran for the standard period of twelve weeks, formally closing on 10<sup>th</sup> October 2007.

## Analysis of Consultation Responses

A total of 316 responses were received within the formal consultation period. A further six responses were also received up to a day after the close of the formal consultation period, and we have included these in this analysis.

Consultation responses have been read and considered in detail, and a basic numerical analysis of the responses, together with summaries of the main comments received, are included below.

It should be explained that many of the representations received mentioned or commented on the issues raised in consultation without explicitly expressing support or rejection of our proposals. This has made it very difficult to include them in the numerical analysis.

In order to keep this analysis as consistent as possible, we have not included implied preferences in the numerical breakdown, as some of these responses could be open to different interpretations. Therefore, the numerical analysis very simply shows the number of respondents definitively supporting each proposal, and the number of respondents expressly rejecting each proposal. These figures are also expressed as a percentage in terms of the total number of responses received.

The table below gives a breakdown of consultation responses included in this analysis by the type of respondent:

Type of Respondent	Number of Representations	Percentage of Total Representations
Shire District	86	27%
Shire County	34	11%
Metropolitan Authority	33	10%
London Borough (inc GLA and City)	37	11%
Shire Unitary	40	12%
Police Authority	39	12%
Fire and Rescue Authority	19	6%
Local Authority Association/ Special Interest Group	13	4%
Other Local Authority Grouping	9	3%
Member of Parliament	12	4%
<b>Total Representations</b>	<b>322</b>	<b>100%</b>

## **Responses to Specific Questions**

A breakdown of responses to the individual questions set in the consultation paper is given below. Please note that the percentages given in the numerical analyses below relate to the total number of responses considered in this analysis.

The analysis below is set out in the same order as the consultation document and is split into corresponding chapters for ease of reference.

## Chapter 2

### Formula Grant and Local Government Restructuring in a Three-Year Settlement

This chapter in the consultation document gave details of proposed approaches to calculating Formula Grant allocations for reorganised authorities within the context of three-year settlements.

A fall-back mechanism was also put forward in this chapter to allow for instances where the proposed approach for reorganised authorities could not be applied. The mechanism would also ensure that reorganisation had no effect on the grant allocations of authorities that were not subject to reorganisation.

One question was posed in this chapter relating to the suggested fall-back mechanism. Responses to the questions are analysed below:

*Question 1: Do you agree with the fallback mechanism described for calculating settlements in restructured areas during the 3 year settlement?*

Number of respondents supporting the proposal: 162 (50% of total responses)

Number of respondents opposing the proposal: 8 (2% of total responses)

The proposed fall-back mechanism was generally welcomed by respondents. In fact, some respondents commented that the overall approach was an improvement on that used in previous local government reorganisations. However, it was also suggested by some respondents that the approach taken should be kept under review during reorganisation.

Overwhelmingly, councils agreed that those authorities not directly involved in reorganisation should not have their Formula Grant allocation affected.

## Chapter 3

### Children's and Adults' Personal Social Services

#### *Personal Social Services Damping*

When the new formulae were introduced in 2006-07, it was decided to phase in the introduction of the formulae for Children and Younger Adults by the use of specific formula damping.

The Government remains committed to fully implementing the PSS formulae introduced in 2006-07, which better reflect the current patterns on relative need. The consultation paper posed questions on whether the specific floor damping should continue.

*Question 2: Should the specific formula floor continue for Children's PSS?*

*Question 3: If yes, how quickly should the formula floor be phased out?*

Number agreeing that the formula floor should continue: 54 (18% of total responses)

Number opposing the continuation of the formula floor: 126 (39% of responses)

*Question 4: Should the specific formula floor continue for Younger Adults' PSS?*

*Question 5: If yes, how quickly should the formula floor be phased out?*

Number agreeing that the formula floor should continue: 55 (17% of total responses)

Number opposing the continuation of the formula floor: 121 (38% of responses)

Overall, respondents opposed the continuation of formula floor damping. A wide range of comments were received, including support for the formula floor being removed immediately, the suggestion that the formula floor should be phased out over the life of the three-year settlement, and that the removal of the floor cannot be supported until a full review of the formula can be carried out.

There were also a number of respondents who recognised that the overall grant floor gives stability and protection to authorities, and there was therefore no justification for additional formula damping.

#### *Social Services for Older People*

The consultation paper also put a proposal for updating one element of the Older People's PSS sub-block. It was proposed to update the data used in the Low Income Adjustment element of the formula.

Two options for updating this element were posed in the consultation paper, and respondents were asked which option they would prefer (Options SSE1 or SSE2).

*Question 6: Which option do you prefer for updating the Low Income Adjustment in the formula for Social Services for Older People – SSE1 or SSE2?*

Number supporting Option SSE1: 43 (13% of total responses)

Number opposing Option SSE1: 16 (5% of responses)

Number supporting SSE2: 74 (23% of total responses)

Number opposing SSE2: 17 (5% of responses)

Option SSE2 was favoured overall. The main reason given for this preference was that Option SSE2 could be updated more easily. General support was also given for the inclusion of the 'Balance of Care' variable. However, it was acknowledged by some respondents that Option SSE1 had more explanatory power.

It was also suggested that the statistical evidence was not sufficiently strong for either option and more work was needed to develop a more robust model.

## Chapter 4

### Police

This chapter set out a number of options for changes to the Police Funding Formula.

Option POL1 looks at updating the Activity Based Costing data used in the formula to make the calculations more up to date.

*Question 7: Do you agree the resource base should be updated (POL1)?*

Number agreeing the update of the resource base: 67 (21% of total responses)

Number opposing the update: 25 (8% of responses)

Although there were a number of concerns expressed about some of the data to be updated, there was general agreement with the proposal to update the data used in the formula.

Other options for change to the Police Funding Formula put forward in the consultation document involved rolling a number of specific grants into the settlement, and asked two separate questions regarding the treatment of different grants.

*Question 8: Do you agree that the Additional Rule 2 grants should be rolled into principal formula Police Grant (POL2)?*

Number supporting Option POL2: 42 (13% of total responses)

Number opposing Option POL2: 39 (12% of responses)

*Question 9: Do you also agree that the Crime Fighting Fund should be rolled into principal formula Police Grant (POL3)?*

Number supporting Option POL3: 44 (14% of total responses)

Number opposing Option POL3: 36 (11% of responses)

Responses were fairly evenly split on both of these options. Some respondents agreed with the general principle of rolling specific grants into formula grant. Others expressed some concern that some of the grants proposed to be rolled into the settlement were intended to be specifically targeted and should therefore remain as separate grants.

A number of non-police authorities also commented on the proposals put forward in this chapter. The main concern raised by these respondents was that changes to police funding should not impact on non-police authorities.

## Chapter 5

### Fire and Rescue

This chapter set out one proposed change to the needs formula for fire and rescue. The proposal was to update the regression expenditure base to take account of more up-to-date data.

*Question 10: Do you agree that the expenditure data used to determine the coefficients should be updated (FIR1)?*

Number supporting Option FIR1: 52 (16% of total responses)

Number opposing Option FIR1: 39 (12% of total responses)

Responses were split on whether the formula should be updated as proposed, but were marginally in favour of incorporating the new data. There was broad agreement with the principle that the most up-to-date data should be used wherever possible.

However, a number of responses suggested that the updated expenditure data would cover a period of considerable change within the fire and rescue service and might therefore not give a representative picture. Others were concerned that this proposal only updated part of the formula, whereas a full review of the whole formula was needed. There was also some concern about the use of past expenditure as an indicator.

## Chapter 6

### Highways Maintenance

This chapter looked at one options for changing the Highways Maintenance formula. This involves updating the regression expenditure base for the formula.

One question was posed in this chapter.

*Question 11: Do you agree that the expenditure data used to determine the coefficients should be updated (HM1)?*

Number supporting the update of expenditure data: 79 (25% of total responses)

Number opposing the update of expenditure data: 57 (18% of total responses)

The responses were in favour of updating the formula as proposed, as there was general support for the use of the most up-to-date data.

However, comments were received concerning the accuracy and reliability of the data to be used. Also, a number of responses questioned the allocation of grant on the basis of past spend, not on the basis of need. It was felt that the proposal might penalise those authorities who had previously chosen to spend on other services at the expense of highways.

## **Chapter 7**

### **Environmental, Protective and Cultural Services**

Since the publication of the Formula Grant Distribution Consultation Document, the Department for Transport have announced that funding for the additional concessionary fares scheme from April 2008 will be allocated as a specific grant. Therefore, the questions included in this chapter (questions 12 and 13) were withdrawn from the consultation exercise.

## Chapter 8

### Capital Finance

This chapter set out one option for changing the capital finance methodology in order to simplify the calculations particularly in light of multi-year settlements.

*Question 14: Do you agree with the proposal to freeze the shares of SCE(R) for years prior to 2007-08 to the level used in the 2007-08 Settlement; and that in future, the shares of SCE(R) will not be recalculated to the current year shares in every Settlement?*

For the purpose of analysis, this was split into two parts, as shown below.

*Do you agree with the proposal to freeze the shares of SCE(R) for years prior to 2007/08 to the level used in the 2007/08 Settlement?*

Number agreeing proposed approach: 152 (47% of total responses)

Number opposing proposal: 7 (2% of responses)

*Do you agree that in future, the shares of SCE(R) will not be recalculated to the current year shares in every Settlement?*

Number agreeing proposed approach: 151 (47% of total responses)

Number opposing proposal: 6 (2% of responses)

Respondents were in favour of the approach suggested in the consultation paper, with most agreeing this simplification of the current capital finance calculations.

A few responses did suggest that clarification of the treatment of levies, and regarding the statutory need to use population data from two years previous would be useful. It was also suggested by some respondents that increases in the capital finance block should be exempted from the floor damping calculations.

## Chapter 9

### Area Cost Adjustment

The Area Cost Adjustment is the element of the relative needs formulae which reflects the varying costs of service delivery around the country.

Two sets of options were presented in the consultation document. The first proposal updates the way in which elements of the ACA are combined in the calculations, and poses two questions.

*Question 15: Do you agree with the proposal to update the weights given to the rates cost adjustment (Option ACA1)?*

Number agreeing proposal: 164 (51% of total responses)

Number opposing proposal: 55 (17% of responses)

Respondents mainly agreed that the weights should be updated as the current assumptions are very old. However, a number of respondents also stated that the rates cost adjustment within the ACA should be removed altogether.

*Question 16: Do you agree with the proposal to update the weights given to the labour cost adjustment (Option ACA2)?*

Number agreeing proposal: 166 (53% of total responses)

Number opposing proposal: 58 (18% of responses)

Again, it was generally agreed that the weights should be updated as the current assumptions are very old. There were some comments regarding the application of the ACA to Fire and Police Authorities, particularly as their pay settlements are decided on a national scale, and London Weighting would pick up any difference in pay costs. A number of responses observed that the data were not of sufficient quality to give unambiguous new figures for the labour cost weights.

The second set of options looked at in the consultation covered the way in which local authorities are grouped together to calculate the ACA. Three questions were asked about the geography of the ACA – whether it should be changed; which of the two options proposed by Government would be preferred; and asking for any other options for changing the geography.

*Question 17: Do you agree that we should revise the geography of the ACA?*

Number agreeing that the ACA geography should be revised: 137  
(43% of total responses)

Number disagreeing: 62 (19% of responses)

*Question 18: Which option for revising the geography of the ACA do you prefer – ACA3 or ACA4?*

A preference was shown for Option ACA4, as shown below.

Number supporting Option ACA3: 41 (13% of total responses)

Number opposing Option ACA3: 24 (8% of responses)

Number supporting ACA4: 60 (19% of total responses)

Number opposing ACA4: 22 (7% of responses)

*Question 19: Do you have other proposals for revising the geography of the ACA? If so, please specify.*

Responses to Question 19 included a number of comments regarding the proposals for London; detailed comments on the geography as it is applied to Hampshire and the Isle of Wight; and a number of suggestions that the geography should be extended to cover other areas of the country (eg Dorset, Manchester).

A number of respondents expressed concern about the distributional impacts on authorities outside the area directly covered by the ACA.

There were also a number of respondents supporting the idea of each upper tier authority having its own ACA.

## Chapter 10

### Taking Account of Relative Needs and Resources

The grant distribution system takes account of both the relative needs of different councils that are relevant to the cost of delivering services, and the relative abilities of different councils to raise resources. The relative weights given to these two elements can be changed to take more account of either.

A number of judgemental combinations of changes in the size of the Relative Needs Amount and the Relative Resource Amount were published for discussion by the Settlement Working Group. The consultation paper asked two questions regarding possible changes to the way in which these elements are taken into account in the system.

*Question 20: Do you think there should be a further judgemental change in the extent to which the system takes account of needs or resource?*

*Question 21: If so, what change would you suggest?*

Number agreeing to further judgemental change: 53 (16% of total responses)

Number opposing further change: 165 (51% of responses)

The majority of respondents opposed any further judgemental change. These respondents did not see any apparent justification for change, nor did they believe that there was a clear rationale behind the way in which the relative amounts were taken into account. A number of respondents stated that this should not be set by Ministerial judgement, but should be based on evidence.

It was also suggested that changes to this element would further complicate the system, although some respondents did indicate that they would support changes if they better directed money to high needs and low resource authorities.

# Chapter 11

## Tapering grant floors down

The principle of grant floors has been in existence since 2001-02. The grant floor exists to ensure stability in the financing of local services, by guaranteeing local authorities a minimum change in their formula grant allocation year-on-year.

The floor damping system is self-financing with those authorities who do not need the support of the floor, contributing towards the cost of meeting the minimum guarantee for those that do.

With the advent of three-year settlements, the system is in itself more stable, and there is more opportunity to consider tapering the floor over the three-year settlement to allow more of the actual formula calculations to apply.

This chapter set out two questions regarding this approach.

*Question 22: Do you support the approach of reducing the levels of grant floors over the 3 years of the settlement?*

Number supporting approach: 117 (36% of total responses)

Number rejecting approach: 142 (44% of responses)

*Question 23: Do you have other suggestions on the way in which the grant floors system should be operated?*

A number of comments were received in response to these questions. Suggestions were made that floors should be set as close as possible to the level of inflation, that they should reflect the actual cost and demand pressures faced by local authorities, and that they should be funded by additional money from Government.

Specific suggestions were made that funding for transfers into the settlement should be excluded from grant floor calculations, and that there should be higher floors for Growth Areas.

A number of respondents also stated that for the sake of stability, the floor damping mechanism must remain as it is.

## Chapter 12

### 100% Quarterly Scans of Benefits Data

This chapter discussed options for changes to three data indicators used in the relative needs formulae. Two separate questions were put with regard to the data used for the Disability Living Allowance (DLA), Income Support and Pension Credit indicators used within the formula grant distribution system.

*Question 24: Do you agree that the DLA indicator is based on a three year average using quarterly rather than annual data? (Option DATA1)*

Number supporting Option DATA1: 188 (58% of total responses)

Number opposing DATA1: 4 (1% of responses)

*Question 25: Do you agree that we use quarterly data on income support claimants and claimants of pension credit? (Option DATA2)*

Number supporting Option DATA2: 184 (57% of total responses)

Number opposing DATA2: 5 (2% of responses)

Respondents were generally in favour of using quarterly data for the indicators in question. There were no substantive comments received on these options.

## Chapter 13

### Attractiveness of an Area to Day Visitors

Two service blocks within the grant distribution system take account of the number of day visitors to an area, as this can place additional demand on some services. There is no direct source for the number of day visitors. The current indicator is determined from a model and constructed using various information dating from 1988-89 and 1991, and the 1991 census. It is generally accepted that this indicator is very out of date.

During the review of the grant system carried out in 2005, research was commissioned to update the existing day visitors indicator. However the results of the research were not widely accepted as reliable, and it was therefore decided following consultation not to use the updated indicator.

For this review, a different approach was taken to determine a replacement indicator. The proposed measure attempts to reflect the reasons that day visits are made, rather than to make an estimate of the actual number of day visitors to an area.

As such, the proposed indicator could not simply be substituted in to the Highways Maintenance formula

Two questions were put regarding the proposal to use this new indicator.

*Question 26: Do you agree that we should replace the day visitors indicator with a population-weighted indicator that takes into account the attractiveness to an area of day visitors? (Option DATA3)*

Number supporting new indicator: 105 (33% of total responses)  
Number against new indicator: 90 (28% of responses)

*Question 27: Do you agree that we should remove the day visitors indicator from the Highways Maintenance formula? (Option DATA4)*

Number supporting Option DATA4: 84 (26% of total responses)  
Number opposed to Option DATA4: 67 (21% of responses)

Respondents were split on both of these questions, but slightly in favour of using the new indicator, and of removing the day visitor indicator from the highway maintenance formula.

However, a number of respondents felt that there were problems with the new attractiveness variable. It was felt that the new indicator appeared to have a bias towards more rural activities and areas and the proposed weighting on some of the identified activities was questioned. There was also a problem with the fact that the new indicator did not recognise specific special events.

Other respondents stated that attractiveness was a subjective measure, and further analysis was needed before the indicator should be used. However, there was also a measure of agreement that the current indicator was so old that it should be replaced.

## Chapter 14

### Student Exemptions and the Council Tax Base

This chapter set out possible changes to the way in which student exemptions are taken into account in the taxbase figures used in the calculating formula grant allocations.

It was suggested that collection of the student exemptions data should be changed to better reflect the actual taxbase situation. Two proposals were put forward for response.

*Question 28: Do you agree that we use student exemption numbers from 31 May 2007 to adjust the starting position of the taxbase projections? (Option DATA5)*

Number supporting proposal: 87 (27% of total responses)

Number opposing proposal: 95 (30% of responses)

*Question 29: Do you agree that we use the average of student exemption numbers from 31 May and mid- September 2007 to adjust the starting position of the taxbase projections? (Option DATA6)*

Number supporting proposal: 118 (37% of total responses)

Number opposing proposal: 65 (20% of responses)

It was generally agreed that using the average of data from two collection dates would better reflect the exemptions over a whole year. A number of authorities did comment that the reliability of the data would need to be confirmed.