

Chapter 1

Introduction

Coverage

1. This consultation covers local authorities in England who currently receive grant via the Standard Spending Assessment system.

Background

2. Approximately 25% of public spending in England takes the form of spending by local authorities on services they provide. Most of this money is distributed as grant from central government, with the balance being raised locally via council tax.

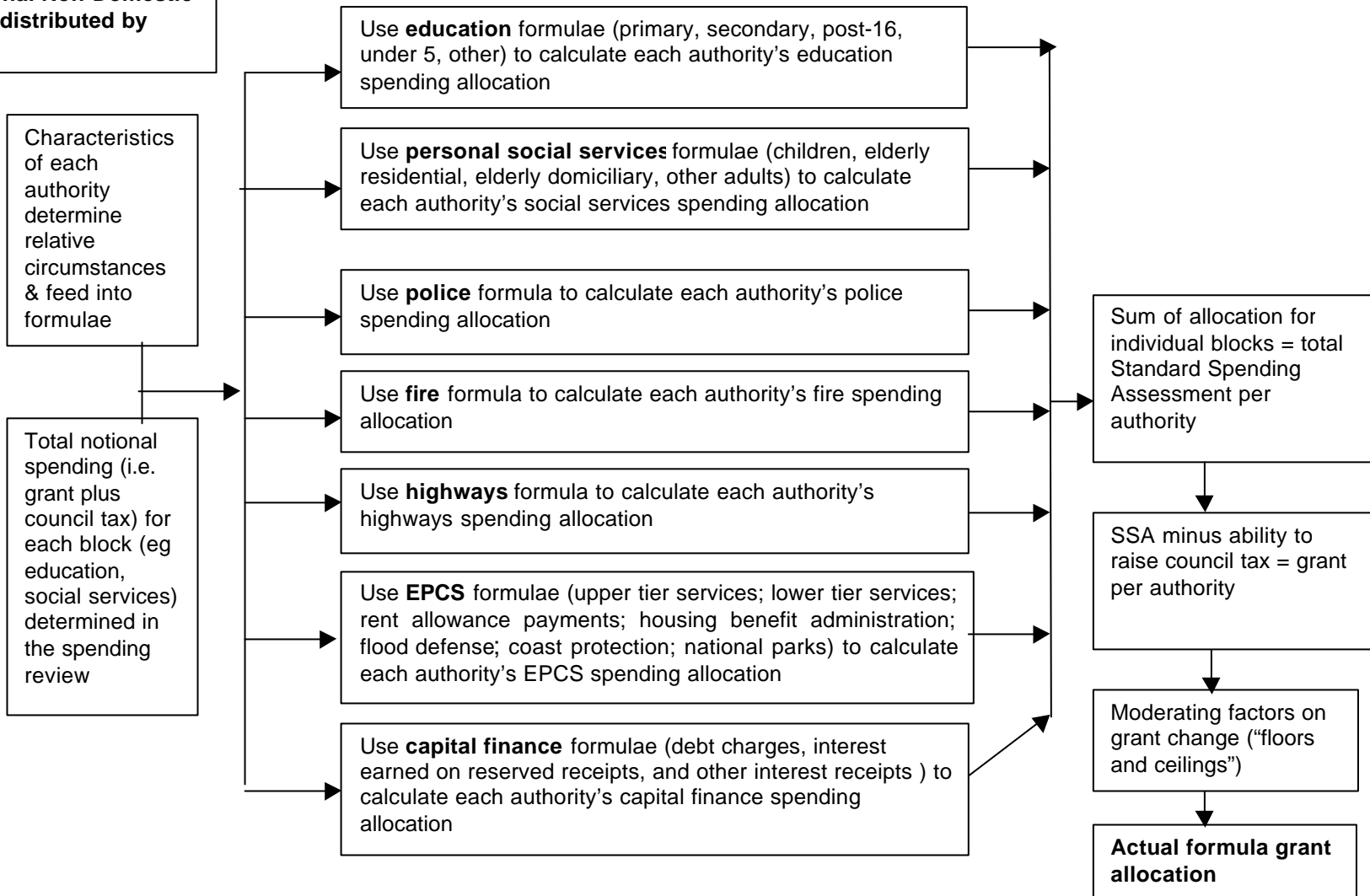
3. In partnership with local government and other interested parties, the Government has been reviewing for some time how these resources are divided up between authorities (in the annual local government finance settlement). Earlier this year, the Government made a commitment to a consult on exactly how that new system might work. This paper provides the basis for that consultation.

4. The system divides up the finite pot of available grant (which is determined in the biennial spending reviews) by reference to authorities' circumstances and their ability to raise council tax. At present the system is based on a number of mathematical formulae covering seven service 'blocks'. These blocks are:

- Education;
- Personal Social Services (PSS);
- Police;
- Fire;
- Environmental, Protective and Cultural Services (EPCS);
- Highways Maintenance; and
- Capital Finance.

5. These blocks relate to spending (i.e. grant plus council tax). The diagram below shows how each authority's grant allocation is derived.

How general revenue grant (Revenue Support Grant and National Non-Domestic Rates) is distributed by formula



History of technical work

6. Reform of the grant distribution system has been the subject of technical work for some time. Following the Green Paper in September 2000 three working groups were established with the aim of developing options scrutinising proposals. These covered:

- police;
- education; and
- all other formulae.

7. In addition, a Revenue Grant Distribution group was set up to oversee the three technical groups, and also to consider wider grant issues. The reports of these groups are available via the Internet on the websites of the Office of the Deputy Prime Minister (<http://www.odpm.gov.uk/>), the Department for Education and Skills (<http://www.dfes.gov.uk/>) and the Home Office (<http://www.homeoffice.gov.uk/>).

Aims

8. Responses to the 2000 Local Government Finance Green Paper showed that a big majority of the local government respondents wanted the new system to continue to be based on formulae and to do the same basic job. The Government announced in the 2001 Local Government White Paper “Strong Local Leadership – Quality Public Services” that it agreed. We want new formulae that are fairer, simpler; more intelligible and more stable.

9. The Government is concerned to make sure that the new system is more easily understood than the old one. As such, we believe it is important that it will improve transparency and accountability if people can see how much is allocated on that basis. Clearly, it will never be possible to grasp the system without some effort; the complexity of the issues it seeks to address see to that. But it should be possible to make improvements.

10. In considering how to reflect local authorities' relative circumstances, the Government will look at a range of factors when it comes to take decisions in the autumn. Three factors seem basic: The first is the extent to which it makes sense to distribute grant as a basic amount per head of population (or other unit relevant to cost). The second is giving an appropriate emphasis to the need to tackle deprivation. And the third is how to reflect the variation in pay costs between different areas of the country. Because deprivation and pay components are core drivers of the costs authorities face in most areas and the problems the system will need to address, we are particularly keen to see them separately identified in formulae. However, that is not to say that other components (for example sparsity) are unimportant. Indeed, they may be a key consideration in particular instances. They will be clearly identified where they form part of a formula.

11. Therefore, the Government is keen to see the new formulae follow the basic structure of

BASIC ALLOCATION + DEPRIVATION TOP-UP + PAY-COST TOP-UP + OTHER
TOP-UPS

12. Note that how the top-ups work may vary in practice: some may be additive (adding an amount to the basic allocation); some may be multiplicative (multiplying the basic allocation by an amount.)

Principles

13. The working groups have suggested a number of principles that should guide the new system. The list below is based on that work:

- formulae should reflect all local authorities' relative circumstances;
- formulae should not be treated as an infallible guide to how much local authorities should spend;
- formulae should where possible be based on objective and factual evidence which relates to need to spend on services;
- formulae should be constructed and applied in such a way that the resultant grant distribution is more predictable and more stable than the current system;
- where possible the most recent available data should be used in constructing formulae and in underlying analyses;
- data should be capable of being justified on a rational basis, and where they are particularly volatile from one year to another they should be 'smoothed' (e.g. by taking an average over several years);
- formulae should not create perverse incentives or penalise authorities for improving efficiency; and
- control total, methodology and data changes ought to be provided to local government with as much advance notice as possible.

14. However, it has also recognised that there are frequently constraints on what can be achieved. These include:

- any system based on formulae cannot reflect all possible circumstances, so there will inevitably be an element of rough justice. This tends to be increased as formulae are made simpler;
- the information necessary to develop wholly robust and objective formulae is not always available, so elements of judgement and reliance on complex statistical techniques are sometimes unavoidable; and
- since the system can only distribute the available resources, it must be based on comparisons between authorities rather than absolute measurements of their need to spend. This means that a balance will often need to be reached between competing pressures.

15. Clearly, the extremely technical nature of the issues means that there is frequently no clear-cut optimum solution. The Government recognises that pragmatic decisions will be needed to produce a workable system.

Options

16. This consultation document contains options for each of the components for the new system. These are the seven blocks above, plus several cross-cutting issues:

- how to recognise authorities' pay costs (currently done by the Area Cost Adjustment);
- how to treat other types of costs (including fixed 'cost of being in business'; and population change);
- how to recognise councils' ability to raise revenue from council tax;
- how the 'floors and ceilings' mechanism to limit year-on-year grant changes should work;
- how the system might be presented; and
- whether to merge Revenue Support Grant and National Non-Domestic Rates into a single grant stream (Formula Grant).

17. There are sections containing options on each of these issues, together with details of how each option would affect individual authorities. The Government believes that the options in this paper could provide the components for a new system. However, the options here may be refined further following consultation. Respondents may also propose new options. **Therefore, the components of the new system will not necessarily be drawn from the list contained here.**

Construction of exemplifications

18. The exemplifications shown in this document are constructed by re-running the 2002-03 settlement as though the particular formula option in question had been in place for that year. Other elements of the 2002-03 settlement such as the formula spending totals, the data used in the formula, and (in the case of the service blocks) the Area Cost Adjustment are unchanged from 2002-03 except where stated.

19. The outcome of each option is normally expressed in terms of change from the 2002-03 settlement in £ million and percentage of total SSA. Total spending is used so that the figures are comparable from one service to another. There are some exceptions, where circumstance means that grant is used instead of spending. The figures for both amounts and percentages have been rounded to one decimal place.

20. Outcomes are not shown for those authorities who are not responsible for delivering the service in question. For example, shire districts in two-tier areas are not included in the education exemplifications, since they are not responsible for education services.

Limitations of exemplifications

21. Constructing exemplifications by re-running the 2002-03 settlement gives the best possible illustration of the effects of each option at the present time. However, the detailed effects of options in the context of the 2003-04 settlement would be

different. This is partly because the totals for the various formula spending blocks and grant may have changed in the Spending Review 2002 and due to transfers of funding. We will also be using updated data. The most important of these will be new Census data on population, new earnings data to feed into the Area Cost Adjustment (though on any ACA option we would propose using an average of more than one years' data), and new secondary pupil counts.

How to respond

22. The Government would like your views on which of the options presented here should go to make up the new system. We would also welcome any alternative proposals. Specific questions are posed at the end of each chapter, before the tables of exemplifications.

23. We welcome responses submitted electronically. Please send responses by e-mail to: lg.fgreview@odpm.gsi.gov.uk.

24. If you are not able to respond by e-mail, please send your response to:

Mr Gary Meyler
Formula Grant Review Team
Office of the Deputy Prime Minister
Zone 5/F6
Eland House
Bressenden Place
London
SW1E 5DU

Alternatively, they may be faxed to 020 7944 2963.

25. Responses should reach us by 30th September 2002.

Confidentiality

26. Ministers may make responses to this consultation public unless respondents request that their comments are treated as having been made in confidence. **If you wish your response to be treated in confidence please say so clearly. Corporate confidentiality clauses automatically attached to e-mails will not be taken into account.**

Questions

27. If you have any questions about this publication or require paper copies, please leave a message on our enquiry line on 020 7944 8840, or e-mail lg.fgreview@odpm.gsi.gov.uk.