

# Chapter 12

## Predictability and stability

### (i) Floors and Ceilings

#### *The Current System*

208. Under floors and ceilings the government sets both a lower and an upper limit to the year-on-year adjusted grant change for an authority within a group (there may be different limits for different groups, as in 2002/03). The cost of bringing grant changes up to the lower limit is met from two sources. These are funds removed from authorities to bring grant increases down to the ceiling, and through scaling downwards grant increases for authorities with an underlying grant change between the lower and upper limits.

#### *The New System*

209. For 2003/04 the government is intending, subject to views during consultation, to continue to use floors and ceilings in a broadly similar manner to that in 2002/03, and proposes to announce the lower and upper limits in the autumn.

210. The one area where changes are actively being considered for 2003/04 is the method of deriving adjusted grant amounts for 2002/03 to compare with the underlying grant figures for 2003/04. (Adjustments are necessary whenever there have been any changes in function and funding of services in order to achieve a like-for-like comparison between the two grant years.)

211. Traditionally such adjustments have been derived by recalculating formula spending figures for the base year and then recalculating base year grants following the methodology set out in the Local Government Finance Report. This procedure is complex and difficult for most stakeholders to follow. It can also lead to changes in grant for authorities not directly affected by changes in function and funding of services, because of the need to split the national council tax for supported spending (CTSS) between all authorities supplying services in an area.

#### *Options*

212. Three options for change have been identified for calculating the adjusted base year grant amounts.

#### *Option BYG1*

213. Split the national CTSS for the base year according to actual base year formula spending, not on adjusted base year formula spending.

*Option BYG2*

214. Freeze the split of national CTSS between authorities for the period 2003/04 to 2005/06 at 2002/03 values.

*Option BYG3*

215. Adjust actual base year grant by the difference between actual and adjusted base year formula spending amounts.

216. Option BYG1 and Option BYG2 would ensure that changes in function and funding do not affect adjusted grants for authorities not subject to these changes, but would not improve transparency or intelligibility.

217. Option BYG3 would be simpler and more transparent than the present process, and would ensure that changes in function and funding only affect grant for the authorities concerned. However it would not take into account an authority's ability to generate council tax income.

218. These options are not necessarily mutually exclusive, and there may be advantages from the point of view of predictability and stability in freezing the split of national CTSS even if another approach is adopted to making adjustments.

**Questions**

219. We would like your views on:

- i) **Which of the above options for calculating the baseline for floors and ceilings do you prefer?**
- ii) **Are there any alternative or additional changes you would wish to see made?**

## **(ii) “Smoothing” - the use of more than one year’s data**

### ***The Current System***

220. At present, we only use a single year’s worth of data to drive formulae. This has the advantage of keeping the system as up to date as possible. However, it also means that large changes in resource allocation can sometimes happen from year to year, if large changes in data occur.

### ***The New System***

221. As discussed in the ACA chapter, in the interests of improving stability and predictability we would propose to reduce the volatility of the ACA by basing it on three years of earnings data.

222. We also think that stability could be improved in the capital financing block, by using information covering a full 12 month period to help smooth out changes in interest rates.

223. We would also like to invite comments on smoothing other indicators such as benefits indicators like income support. We think a distinction can be drawn between principal measures of ‘client’ group size (i.e. population, pupil numbers and road lengths), and the indicators on which the top-ups are derived (eg. indicators of deprivation). We would not propose to smooth the former, but could smooth the majority of the latter. Indicators derived from the Census would not need to be smoothed as they do not change from year to year.

### ***Questions***

224. We would like your views on:

- i) Whether the ACA data should be smoothed?**
- ii) Whether interest rates should be smoothed?**
- iii) Whether any other data should be smoothed in the new system?**