
**RESPONSE TO THE ODPM CONSULTATION PAPER ON THE LOCAL
GOVERNMENT FINANCE DISTRIBUTION FORMULA**

**Responsible Cabinet Member(s) - Councillor Don Bristow,
Resource Management Portfolio**

Responsible Director(s) - Paul Wildsmith, Director of Corporate Services

Purpose of Report

1. To advise Members of the implications for Darlington Borough Council of the Government consultation document on the review of the distribution mechanism for Local Government finance and to seek approval for the response of the Council to the consultation.

Information and Analysis

2. The Formula Grant Distribution System was reviewed for the 2003/2004 Local Government Finance Settlement. It was also announced that the formula would be frozen for three years, the last of which is for the financial year 2005/06, the current year.
3. In July 2005, the Government published a Consultation paper, entitled *Local Government Finance: Formula Grant Distribution A Consultation Paper*. The paper was published in July 2005 with responses invited from Local Government and other interested parties by 10th October 2005.
4. The paper proposes options for change and asks 39 questions on which responses can be given. There are proposals for each of the services blocks within the Formula Spending Share (FSS) and changes to the grant formula itself. The effect on Darlington Borough Council depends on which options are selected by the Government. The consultation paper, including detailed exemplification of all the proposals, is in the consultation papers section within public folders, entitled Formula Grant Distribution.

Education - Schools

5. From 2006/07, funding for schools will be transferred from the Formula Grant System and will be paid as Dedicated Schools Grant (DSG) direct from the Department for Education and Skills (DfES). The transfer of funding will have an effect on grant for non-schools services because some authorities spend above their schools block FSS, while others spend below.
6. The Government has announced the baseline for DSG that will be used to calculate the DSG for 2006/07. For 2005/06, the baseline DSG has been set equal to the school budget as

notified on the Section 52 budget statement, which is £50.694m. This amount is higher than the school FSS in 2005/06 of £49.301m by £1.393m.

7. The excess spend over school FSS will be partially recouped via an amount of money left in the FSS system which will compensate those authorities, like Darlington, which spend an amount in excess of school FSS. As yet the figure has not been announced.
8. The Consultation proposes two options on damping arrangements to moderate the impact of the transfer. This allows the effect of a school DSG transfer higher than FSS to be mitigated by adding back into the system an amount that can be used for expenditure on non-school services. The options are as follows

<u>Option</u>	<u>2005/06 Non-school Grant</u>	<u>Increase for 2006/07</u>
SCLT1	£29.491m	£0.714m
SCLT2	£29.491m	£0.536m

9. The figures in this table showing the increase for 2006/07 were calculated by the Government before the announcement of the baseline DSG for 2005/06. Given that the baseline DSG for 2005/06 is £0.300m higher than anticipated, then the actual figure available for other services will probably be higher than originally notified.

Education – LEA

10. The transfer of schools funding out of the Formula Grant System means that there will only be two Education (LEA) sub-blocks: one for Youth and Community provision and one for LEA Central Functions. No changes are proposed to the formula used to calculate the Youth and Community element.
11. There are three options for the LEA Central Functions sub block proposed by the consultation:

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
EDU1	£0.089m
EDU2	£0.000m
EDU3	-£0.009m

Social Services – Children

12. There is one proposal for change in respect of the Children’s Social Services FSS, together with two proposals for changes to the Foster Cost Adjustment which will benefit Darlington if implemented. However, given the distributional effects on the formula, which takes significant resources away from London and the South East, it is likely that the option will not be implemented. The following table shows the effect of the proposals..

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
SSC1	£1.137m
SSC2	£0.050m
SSC3	£0.023m

Social Services – Older People

13. The changes proposed for the Older People block have the same distributional effects as the proposals for children discussed above. For this reason it is likely that none of the proposals will be implemented, but the effect on Darlington's FSS is shown below.

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
SSE1	-£0.090m
SSE2	£0.149m
SSE3	£0.291m
SSE4	£0.001m
SSE5	£0.012m

Social Services – Younger Adults

14. The options for change are shown in the following table. Again the distributional effects are major and so may not be implemented.

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
SSA1	£0.691m
SSA2	£1.148m

Highway Maintenance

15. There are three proposals for change contained within the consultation document. Unlike the Social Services position, the proposals are based upon data updates and thus are likely to be implemented. In particular, option HM2 updates data from the 1991 census to 2001 census.

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
HM1	£0.016m
HM2	£0.153m
HM3	£0.000m

Environment, Protective and Cultural Services (EPCS)

16. There are two proposals for EPCS block. EPCS1 is based upon updated census data and EPCS2 reflects updated census data and the transfer of funding for free concessionary fares (estimated at £0.669 for Darlington and already announced by ODPM). The outcome is likely to be a combination of both options.

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
EPCS1	-£0.127m
EPCS2	£0.857m

Capital Financing

17. The consultation paper seeks views on whether the interest receipts elements should be removed from this formula. It proposes the following options and as can be seen has the potential to benefit Darlington significantly. Unlike Social Services, it is probable that one of the following options will be accepted because the data currently used in the formula is out of date.

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
CF1	£1.638m
CF2	£0.210m
CF3	£0.362m

Alternative Grant Systems

18. There is a proposal to move away from the current formula of calculating formula grant. At present it is relatively straightforward to calculate the level of grant received and to confirm the data used in the calculation. The proposed changes are to move to a four-block model that includes relative needs, a basic amount, a resources block and a damping block.
19. This proposal has already been criticised on the grounds that it is more complicated and less transparent than the current arrangements.

Three-Year Settlements.

20. The Chancellor of the Exchequer announced the Government's intention to introduce three-year settlements for local authorities in the 2004 Spending Review. The first three-year settlement will be for two-years only, starting in 2006/07. As from 2008/09, three-year settlements will be fully aligned with the spending review cycle, with the next review taking place in 2007.
21. In light of the council tax revaluation, the 2007/08 settlement will only be provisional when announced at the time of the 2006/07 settlement. Taxbase projections will be used in the provisional settlement, while the actual settlement will use the revalued data. From 2008/09 onwards, projections of taxbase will be used. In the event that the projections are different from the actual figures, amendments will only be made if the variation is significant.

Area Cost Adjustment

22. The area cost adjustments attempts to match funding at Council level with local costs, so that those areas with higher costs receive higher funding. The lowest level of ACA is 1.000. Darlington's current ACA is set at 1.000.
23. There are five proposals for change to the ACA and are shown in the following table

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
ACA1	£0.042m
ACA2	£0.223m
ACA3	£0.063m
ACA4	£1.014m
ACA5	-£0.082m

Resource Equalisation

24. The current grant system takes account of the relative ability of different councils to raise council tax. This process is known as resource equalisation. It assumes a national level of council tax rather than using locally determined levels of council tax.
25. In 2005/06 the average band D council tax was £1,214, while the assumed national council tax (ANCT) for resource equalisation purposes was £1,102. Given the current mismatch between ANCT and average council tax, the consultation paper seeks views on whether the Government should increase resource equalisation. The Paper notes that this would distribute more funding to high needs authorities with low council tax bases relative to their needs. The effect on Darlington of each option is shown below.

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
RE1	-£0.129m
RE2	-£0.047m
RE3	£0.158m

Floor Damping

26. The consultation paper proposes to abolish the capital adjustment (DMP1).
27. The 2005/06 grant floors are funded by authorities above the floor based on grant levels. Two different options are proposed to fund the floor, one based on tax base (DMP2) and the other based on a basic amount per head (DMP3).
28. The effect of these options on DBC Grant are as follows:

<u>Option</u>	<u>Effect on 2006/07 FSS</u>
DMP1	-£0.004m
DMP2	-£0.315m
DMP3	-£0.076m

Additional Questions

29. An additional two questions were published which relate to the Children's Personal Social Services Formula Spending Share (FSS) sub-block and the Environmental Protective and Cultural Services (EPCS) FSS block. The suggested responses of the Council to these two questions are given in APPENDIX 1 as questions 40 and 41.

Children's Personal Social Services

30. The consultation document proposed the introduction of floors and ceilings to be built within the FSS block for children. This has the effect of mitigating the impact of severe losses for the South East and thus reducing the level of increase in funding for the North East. The additional question only applies if the original option was supported.

Environment, Protective and Cultural Services (EPCS)

31. A technical adjustment is proposed which updates the 2001 Census based output area density indicator. This proposal has limited effect upon this Council.

Conclusion

32. Given the complexity and scope of the proposals contained within the consultation paper, it is very difficult to predict the likely option selected and therefore the effect upon the Revenue Medium Term Financial plan.
33. **Appendix A** outlines a draft response of this Council to the consultation document. The response is designed in such a way to firstly maximise the effect on Darlington's funding position, but also attempt to eliminate some of the current flaws with the system.

Outcome of Consultation

34. No consultation is taken on these items as a decision is taken by Members

Legal Implications

35. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers needs to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

36. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Council Policy Framework

37. The issues contained in this report do not represent change to Council policy or the Council's policy framework.

Decision Deadline

38. For the purpose of the 'call-in' procedure this does not represent an urgent matter.

Recommendation

39. It is recommended that **Appendix A** to this report be the formal response of Darlington Borough Council to the Government's consultation document of the review of the Local Government Finance distribution mechanism

Reasons

40. The recommendation is supported by the following reasons.
- (a) To ensure that the views of this Council are included in the Governments' considerations.
 - (b) To attempt to maximise the available financial resources of the Council.

Paul Wildsmith
Director of Corporate Services

Background Papers

Consultation document entitled *Local Government Finance: Formula Grant Distribution A Consultation Paper*

Steve Vasey ext 2321

Draft Letter to the Office of the Deputy Prime Minister

Dear Ms Thani

Formula Grant Review Consultation

In response to the consultation document *Local Government Finance: Formula Grant Distribution A Consultation Paper* published in June 2005, please accept the contents of this letter as the response of Darlington Borough Council.

Chapter 2 – Schools Transfer

Question 1 - Do you think that there should be a customised damping system?

No, if damping is introduced, it should be met from central government and not via inter-authority transfers through a ceiling mechanism or other means.

Question 2 - Do you have comments on the Government's other proposals, to adjust the base using spend figures and to isolate police, fire and shire district authorities from the effects of the transfer?

No

Chapter 3 – New Grant System

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

No, on the grounds that the proposed system is more complicated and less transparent than the current arrangements

Chapter 6 - Education – LEA Block

Question 4 - Do you think we should remove the element for Further Education residual pensions?

Yes, it is an unnecessary complication

Question 5 - Do you think the LEA damping block should be removed?

Yes, it is an unnecessary complication given that it no longer greatly affects anyone's FSS.

Chapter 7 - Personal Social Services

Question 6 - Do you agree with the Government's proposal to implement option SSC1? If not, what alternative would you propose?

Yes. It is clear that the Children's PSS sub-block formula, in common with the Older Peoples and Younger Adults formulae, required review because of the need to incorporate the 2001 Census data and other more up to date variable data. The proposal for the Children's PSS FSS

that was produced by the Review was formulated by experts in the field and has been scrutinised by officials from Department of Health, Department for Education and Skills and by the Settlement Working Group. We also note that where criticisms have been made, these have been fully addressed by the Review Team during the review process. In view of this we fully support the introduction of the new formula.

Question 7 - Which option for updating the Foster Cost Adjustment do you prefer?

SSC2

Question 8 - Do you think that there should be specific floors with either ceilings or scaling factors on the children's social services FSS to limit the extent of the changes?

No

Question 9 - Which needs formula option do you prefer– SSE1 or SSE2?

SSE2 is preferred because it is based on a much larger sample of cases than SSE1.

Question 10 - Do you agree with the proposal to revise the Low Income Adjustment to include 2001 Census data?

Yes

Question 11 - Which method of distributing the sparsity top up do you prefer?

SSE5

Question 12 - Do you favour increasing the quantum for the sparsity adjustment to more than 0.4%?

No – any increase should be based on empirical evidence, of which none is provided in the Consultation Paper

Question 13 - Which option do you prefer for the Younger Adults Social Services formula?

As with the Children's formula, the Younger Adults formula required review because of the need to incorporate the 2001 Census data and other more up to date variable data. Once again, the proposals produced by the Review were formulated by experts in the field and were fully scrutinised, and any criticisms were fully addressed. In view of this we support change and our preferred option is SSA2 on the grounds that it has greater explanatory power and wider range of variables

Chapter 8 - Police

Question 14 - Which of the four police options POL2, POL3, POL4 or POL5 do you prefer?

No Views

Question 15 - Do you agree that dedicated security funding should be switched from general to specific grant?

No Views

Chapter 9 - Fire and Rescue

Question 16 - Do you think that the weight of the fixed element for community fire safety should be doubled to 6% (FIR3 and FIR4)?

No Views

Question 17 - Do you agree with the proposal (FIR5) to use a property and societal risk indicator to replace the fire safety enforcement indicator? If not, what would you prefer?

No Views

Question 18 - Which proposal (FIR6 or FIR7) would you prefer to see used as the risk index indicator?

No Views

Question 19 - Do you agree with the proposal to include a fixed element for sparsity (FIR8)?

No Views

Chapter 10 - Highway Maintenance

Question 20 - Do you agree that back lanes should be included in the highway maintenance formula?

Yes, this will ensure that those authority areas with additional highway maintenance responsibilities in respect to back lanes are provided with the additional resources required

Chapter 11 - Environmental, Protective and Cultural Services

Question 21 - Do you think we should adjust the coefficients for concessionary fares?

Yes as this will allow the additional £350m of funding in respect of concessionary fares to be distributed more equitably

Question 22 - Do you think we should make any further changes to coefficients; for example, it has been argued that we should do so to take into account the increasing expenditure on waste?

Yes, waste is an increasing problem and should be recognised as such by the inclusion of a specific EPCS waste sub-block, using such appropriate criteria as necessary to accurately reflect the spending position of each council.

Question 23 - Do you think we should update the fixed cost element?

Yes

Question 24 - Do you agree with the proposed method for transferring Critical Ordinary Watercourses to the Environment agency?

No Views

Chapter 12 – Capital Financing

Question 25 - Do you think we should remove the Interest Receipt elements?

Yes

Question 26 - If we retain one or both of the Interest Receipt elements, do you have any views on how they should be distributed?

N/A, given the response to Q25

Question 27 - If so, should we reduce other FSS totals to compensate, or not? And if we reduce other FSS elements, where should we make the reductions?

Yes – If both interest receipts are removed, then the reductions should be made to non-capital FSS totals as set out in option CF3

Chapter 13 - Area Cost Adjustment

Question 28 - Do you have any comments on our intention to use the full ASHE data set to calculate the ACA?

This is supported because the full dataset includes information from all the jobs of people in the survey and as such, it is a more accurate representation of the local labour market.

Question 29 - Do you think that we should remove the very small rates cost adjustment, or do you think that we should update the weighting of the RCA in line with 2003/4 expenditure data?

It should be removed on grounds of simplification, especially since it accounts for such a small proportion of expenditure on services.

Question 30 - Do you agree with the Government's proposal to retain the current method of setting the lower limit for options ACA1-3?

Yes

Question 31 - Do you think that we should calculate a separate ACA factor for each upper tier authority?

Yes

Question 32: If we implement the change above, which option for setting the lower limit do you prefer?

ACA 4

Chapter 14 - Additional Resource Equalisation

Question 33 - Do you think we should increase resource equalisation?

No because there does not appear to be any plausible way of apportioning the increase in total FSS among the sub-blocks

Question 34 - Which of the options do you prefer?

None

Chapter 15 - Floor Damping

Question 35 - Do you consider that the capital adjustment should be abolished?

No Views

Question 36 - Which approach for paying for damping you prefer (i.e. the existing method, DMP2 or DMP3)?

The existing method.

Chapter 16 - Day Visitors

Question 37 - Would you prefer us to use the new day visitors indicator?

Yes

Additional Questions following publication

Pupil Count

Question 38 - Do you agree that the January pupil count should be used instead of the September pupil count as the source for pupils aged 11 and over?

Yes given that the data may become less reliable in view of the fact the DfES will be devoting less time to the September Count.

Updating the Country of Residents Indicator

Question 39 - Do you agree that an adjustment to the 2001 Census based country of birth indicator used in EPCS should be made?

Yes

Additional Questions following publication

Children's Personal Social Services

Question 40 - If you agree that there should be floors on the children's social services FSS, would you prefer a damping scheme based on a floor, ceiling and scaling factor or just on a floor and scaling factor?

Not applicable given the response to question 8 above

Environmental Protective and Cultural Services

Question 41 - Do you agree that an adjustment to the 2001 Census based output area density indicator, used in both the EPCS and Police blocks, should be made?

No views

Yours faithfully

Paul Wildsmith
Director of Corporate Services