

AGENDA MANAGEMENT SHEET

Name of Committee Cabinet

Date of Committee 06 October 2005

Report Title 2005 Formula Grant Consultation - A Response from Warwickshire County Council

Summary The report outlines for members the changes to the Formula Grant methodology proposed in the consultation paper and the possible financial implications for the County Council. It also seeks members' approval to the response to the government to be submitted by 10 October 2005.

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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers "Local Government Finance: Formula Grant Distribution - A Consultation Paper" issued by the ODPM in July 2005

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Mrs Tandy, Cllr Roodhouse, Cllr Booth, Cllr McCarney - for information
- Cabinet Member Cllr Farnell, Cllr Cockburn "noted"
- Chief Executive
- Legal David Carter - for information
- Finance Dave Clarke - reporting officer
- Other Chief Officers

- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION YES

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation

Cabinet - 06 October 2005

2005 Formula Grant Consultation - A Response from Warwickshire County Council

Report of the County Treasurer

Recommendation

Cabinet is recommended to:

- ▶ Note the proposals for changing the methodology for the distribution of formula grant outlined in the consultation paper and the potential impact on the County Council, and
- ▶ Approve, subject to any comments, the County Council's response to the consultation paper, attached at **Appendix A**, and authorise the County Treasurer to update the response as necessary in conjunction with the portfolio holder.

1 Introduction

- 1.1 On 21 July 2005 Cabinet received a report outlining the forecast of available resources for 2006/07 to 2008/09. During the summer a number of government consultation papers have been released concerning various aspects of the future funding of local government. One of these consultation papers proposes changes to the formula grant distribution methodology. This report outlines report outlines for members the changes proposed in this consultation paper and the possible financial implications for the County Council. It also seeks members' approval to the response to the consultation paper for submission to the government by 10 October 2005.

2 Outline of the Formula Grant Consultation Paper

- 2.1 The consultation paper contains:
- ◆ 37 options for changes to the grant formula itself
 - ◆ Proposals for a second wave of resource equalisation
 - ◆ Options for damping mechanisms to phase in the impact of any changes on individual authorities

- ◆ Details of how the transfer of schools funding to Dedicated Schools Grant (DSG) will be managed and presented in the 2006/07 Revenue Support Grant (RSG) Settlement
- ◆ An option for an alternative presentation of the grant formula
- ◆ An outline of how the implications of the introduction of three year settlements will be dealt with, and
- ◆ The proposed treatment of the 2004/05 and 2005/06 Amending Reports

2.2 The consultation paper is a very technically complex document and over 300 pages long. The format of the response requested is in the form of answers to 41 specific questions. However, as with previous consultations, the draft response at **Appendix A** also includes an executive summary of the key points we would wish to make. The deadline for responses is Monday, 10 October 2005. This report therefore provides members with the opportunity to comment on and amend the draft response before it is submitted.

3 Principles Underpinning the Content of the Response

3.1 The technical nature of the response to the ODPM and the number of specific questions in the consultation paper requires that a systematic approach be used to assessing which options the County Council should support or oppose. Therefore, underpinning all the arguments made in the response is a hierarchy of key principles. The draft response at **Appendix A** has been prepared in accordance with these principles.

3.2 The overriding principle is to maximise the grant gained/minimise the grant lost by the County Council as a result of the options supported. However, in doing this a number of sub-criteria have been used as a basis for refining the arguments:

- ◆ The response is internally consistent and does not include any contradictory arguments
- ◆ The response is consistent with policies/submissions previously made by the authority
- ◆ The net benefit to our partners across the whole of Warwickshire, including the district councils and the police authority is taken into account
- ◆ The options supported are technically valid and reflect the key criteria in determining the need to spend on a particular service

4 Formula Grant Methodology – Proposed Changes

4.1 Formula grant is the main general grant received by the authority in support of the services which we provide. It is the “new” name for RSG and business rates as the main central government grant support for local authorities. The grant is allocated based on a number of complex methodologies (Formula Spending Shares or FSS) consisting of a range of statistical formulae.

4.2 Excluding schools the authority would have received £72 million grant in 2005/06. The formula grant methodology changes, if implemented, will directly impact on this figure. Any gains would be additional resources to spend on

services or to reduce the council tax. Any losses from the formula grant changes will need to be made good either by raising council tax or reducing spending.

- 4.3 **Appendix B** provides a summary of the options for changing the formula grant methodology, a brief comment on each of these and the estimated impact on the authority's grant level if the option were implemented.
- 4.4 In practice the 37 options for change can be classified into a much smaller number of categories:
- A. Updating existing formulae for the 2001 census data (7 options)
 - B. Alternative data sources where the current data is no longer collected, deemed to be valid or is felt to be too volatile (6 options)
 - C. Removal of indicators because they allocate very little money (2 options)
 - D. Repeat of research underpinning the existing formula and subsequent updating of indicators (4 options)
 - E. Genuine alternative options (14 options)
 - F. Adjustments to reflect changes in responsibility (4 options)
- 4.5 As can be seen there are few options that are genuine alternatives and these are split over an even narrower range of service areas:
- ◆ Social Services (1 children's, 2 older people and 1 younger adults option)
 - ◆ Fire (2 options)
 - ◆ Highways Maintenance (1 option)
 - ◆ Capital Financing (3 options), and
 - ◆ Area Cost Adjustment (4 options)
- 4.6 The significant options, simply due to their financial effects, are the social services options and the proposals for alternative ways of calculating the way differences in labour costs between areas are reflected (the area cost adjustment). It is in these areas in particular where we have focussed the technical assessment and, where possible, added a service perspective to support our position.

5 Resource Equalisation

- 5.1 As with the last formula review in 2002 this is the most financially significant proposal in the consultation paper. The best outcome for the authority is a position of "no change", the worst a loss of £4.5m grant.
- 5.2 Resource equalisation is therefore the most robust part of the draft response to the consultation paper and features prominently in the executive summary of key points. However, there are few arguments that can be added to the opposing case we made in 2002, the last time resource equalisation was proposed and introduced.

6 Damping Mechanisms

- 6.1 Three alternatives are proposed. Our response on these has been prepared on a purely theoretical basis as which option is preferable financially depends entirely on the position in which the authority finds itself at the end of the review.
- 6.2 All of the changes proposed extend damping further and would therefore have the effect of limiting the increase in grant for authorities whose needs it is now accepted had been under-recognised in the past to protect authorities that have lost grant. It is a matter of judgement as to the level of change in grant (especially downwards) an authority should have to manage in one year compared to the fairness of giving authorities the additional resources they are assessed as needing. The response has been prepared on the judgement that following the abolition of ceilings this balance is now about correct.

7 Transfer to Dedicated Schools Grant

- 7.1 This is the one area where the consultation paper adds little clarity to the already confused position. The facts included in the consultation paper are:
- 7.2 The base position from which changes to formula grant will be measured is current grant less budgeted spend on schools services. For Warwickshire this means:

	£m
2005/06 Formula Grant	311.238
Less:	
2005/06 Schools FSS	(233.098)
Additional Warwickshire spend on schools	(5.996)
Adjusted 2005/06 Formula Grant	<u>72.144</u>

- 7.3 A sum (£87m in the exemplifications) will be top-sliced from 2006/07 DSG to be paid as a grant to authorities losing from the transfer of schools funding to DSG. This will be a one-off additional damping grant for 2006/07 only.
- 7.4 There are two proposed options for distributing this grant – one that protects authorities not involved in the transfer of schools funding e.g. police authorities, shire districts etc. and the second a general damping grant spread across all authorities.
- 7.5 The consultation paper recognises the potential distorting effect of the introduction of DSG on grant, council tax and the remaining services funded by formula grant, but does little to clarify the exact position. It remains unclear what the impact on the rest of the authority will be from the DSG transfer in 2006/07. Scenario's still remain where in 2006/07 we get all of the £5.996m back, a share of it (subject to needing to contribute to the general overspending of local authorities on schools) or none of it. Even if this were

clarified the exact implications will remain vague as any judgemental adjustment of Assumed National Council Tax (ANCT) in the RSG Settlement could distort the picture still further.

- 7.6 Currently the best guess is that the authority will get some of the resources back, but by no means all and that turbulence created by this transfer, the formula review itself and potentially resource equalisation will be so significant any beneficial effect will either not occur for several years or will be lost in the myriad of other changes.
- 7.7 Our response therefore concentrates on principles, the main one being that no authority should be penalised in the future for raising council tax to top up school spending and that these resources should be returned to the local taxpayers who paid for the extra investment originally. If local authorities collectively are required to fund the £206m DSG top-up this should be done proportionately, not penalising individual authorities.

8 Alternative Grant Systems

- 8.1 This chapter proposes an option for moving away from notional measures of spend in the Formula Grant system. Grant would instead be split into four blocks – relative needs, resource (ability to generate council tax), a basic amount and damping. Relative differences in needs and resources would be measured through indices with the basic amount remaining the same for all authorities providing the same services.
- 8.2 Whilst it would be possible to back track from the indices and replicate the current distribution the weightings of the four blocks could be changed judgementally to produce a different distributional effect compared to the current Formula Grant system.
- 8.3 The consensus opinion of local government is that this change would not be welcome as it makes the system more complex and less transparent and relies too much on judgement.

9 Three-Year Settlements

- 9.1 The government proposes that the settlement to be announced in autumn 2005 should cover the remaining two years of the spending review 2004 (2006/07 and 2007/08). From 2008/09 three year settlements will be fully aligned to the spending review cycle. As yet no announcement has been made on the requirements for firm or indicative publication of advance council tax figures. It is unlikely further information will be available before the provisional RSG Settlement announcement in mid-November.

10 Amending Reports

- 10.1 The government will issue Amending Reports for 2004/05 and 2005/06 at the time of the 2006/07 RSG Settlement. The reports will take account of changes in population estimates and a number of other data errors made in previous years' grant settlements.
- 10.2 For Warwickshire this is expected to be only a minor adjustment for 2004/05 (a few thousand pounds, as in 2003/04) as we lost a significant amount of grant at the ceiling in 2004/05. The figure for 2005/06 is more difficult to predict, as there was no grant ceiling in this year. Similar counties to Warwickshire, that were not at the grant ceiling, lost upwards of £1m in 2003/04 and 2004/05. If Warwickshire is faced with financing such a loss we will need to discuss with our auditors whether we make a provision in our 2005/06 accounts or whether the financing is a first call on the 2006/07 budget. Practice in this area seems to vary between authorities.

11 Impact on Available Resources

- 11.1 The report to Cabinet in July outlined a forecast of £6.533 million gross headroom (available resources) and a shortfall in available resources of £3.904 million after applying the medium term financial planning strategy agreed by council in February 2005. The table below shows the impact on the level of gross/net available resources of the consultation paper, based on a "best guess" at the moment of the likely options that will be implemented.
- 11.2 Also, in looking at the figures there are a number of issues not reflected:
- ◆ The figures at this stage exclude spending on schools and the level of DSG the authority may receive. This is because at present there is insufficient information to predict the likely level of grant with any degree of certainty.
 - ◆ The figures assume we continue to lose all of the £5.996m we fund schools above FSS. If we get some or all of the excess back this will reduce the deficit.
 - ◆ No allowance has been made for the borrowing costs of the current or future capital programme. These could be upwards of £2m.
 - ◆ The figures assume our loss of grant from damping continues at its present level of £0.750m.
 - ◆ The figures assume a council tax increase of 2.9% (the prevailing rate of inflation when the previous resource forecasts report was produced in July).
- 11.3 The table below shows the "most likely" position. The "best position" excluding DSG adjustments and resource equalisation would change the overall position from a shortfall of £6.942m to available resources of £3.461m.

11.4 The “worst position” excluding DSG adjustments and resource equalisation would change the overall position from a shortfall of £6.942m to an increased shortfall of £11.169m.

	Figures As per Cabinet Report £m	Impact Of DSG Transfer Updated £m	“Likely” Position On Grant Review (exc. RE) £m	“Likely” Position On Grant Review (inc. RE) £m
Formula Grant (excluding DSG)	73.656	72.390	70.601	66.303
Increase in Council Tax (inflation only)	188.090	188.090	188.090	188.090
	261.746	260.480	258.691	254.393
Less: Base Budget	-255.213	-254.217	-254.217	-254.217
Gross Headroom	6.533	6.263	4.474	0.176
Less: Medium Term Financial Strategy				
◆ Social Services Passporting	-5.720	-5.720	-6.699	-6.699
◆ Landfill Tax	-0.750	-0.750	-0.750	-0.750
◆ Guaranteed Minimum Budget (2%)	-2.967	-2.967	-2.967	-2.967
◆ E-government	-1.000	-1.000	-1.000	-1.000
Net Shortfall	-3.904	-4.174	-6.942	-11.240

11.5 This gives a potential range from the grant review alone of £14.630m. If the potential range on resource equalisation (no change to a £4.488m loss) and DSG (no change to a maximum £5.996m gain) are added into the mix this makes it very difficult to plan ahead for 2006/07 and 2007/08 at this stage with any degree of certainty. It is unlikely we will get any clarity before the announcement of the RSG Settlement in November.

11.6 The above table only covers the funding of the medium term financial strategy and does not take on-board other budget pressures. Departments are currently working on the detail of budget pressures with the information due to be returned to Treasurer’s by the end of September. Once this information is co-ordinated and the RSG Settlement has been announced a further report will be produced that will provide a clearer position of the overall budgetary outlook.

DAVID CLARKE
County Treasurer

Shire Hall
Warwick
06 October 2005

2005 Formula Grant Consultation Paper – Draft Response from Warwickshire County Council

Executive Summary

The formula grant consultation paper is a long and very complex document. This response presents our view, arguments and suggestions in respect of each of the issues raised and questions posed by the ODPM.

We welcome many of the proposals in the consultation paper.

In response to the consultation earlier in 2005 we warmly welcomed the introduction of three-year settlements. These will provide the stability and predictability, which the current annual cycle lacks.

We have asked for some considerable time for the replacement of 1991 census data with data from the 2001 census. We welcome the replacement of this data as part of the review.

There are a number of key issues that we believe must be addresses when considering the new formula for grant distribution. These are summarised below. A full technical commentary on the issues with detailed answers to the consultation questions is also provided.

Resource Equalisation

Local authorities are frequently reminded by central government that FSS should not be used as comparators for spend between services, nor a measure of increases in Council Tax. Therefore we believe that for the Government to increase the control totals in line with historical spend for a number of FSS blocks, in what would be an attempt to model the current actual spending and tax levying would completely contradict the governments stated position on the relationship between FSS and spend. If the FSS is truly not a guide as to how much local authorities should spend then the control totals should not be altered to reflect spend.

The government are currently in the process of developing a new method for distributing grant to local government. They state that they want this alternative method to move away from notional levels of spend and taxation. Yet here we see here the government attempting to alter the current formula (which is also not meant to be a measure of spend or taxation) to match current spend and taxation.

Therefore, it is our view that extensive impartial research is needed – following the publication of the findings of the Lyon's Review, before the Government introduce further resource equalisation.

One of the ironies of the current proposal is that in its stated aim of reducing the gap between spending and FSS the system proposed actually has the opposite effect. We have argued since the FSS system was introduced that the FSS formula underestimates the needs of authorities with average needs as too much allocated in top-ups for deprivation etc and not enough on the basic amount.

At individual authority level it is lower need, higher taxbase local authorities that tend to spend above FSS and are thus the main cause of council tax being greater than ANCT. Overall we believe this is because of the inability of the FSS system to adequately reflect their needs. By introducing resource equalisation to try and “solve” this problem the options in fact make it worse. The gap between spend and FSS for high taxbase authorities would actually grow!

Capital Financing – Interest Receipts

The purpose of the two interest receipts sub-blocks is to recognise that authorities have differing capacities to generate capital receipts and differing needs to hold balances depending on both the extent and range of the services provided.

We are opposed to the removal of the Interest Receipts blocks without a reduction in other FSS blocks. Without this reduction the option becomes just another layer of resource equalisation, with an increase in control totals with no corresponding increase in formula grant, authorities will see an increase in ANCT. The exemplifications as presented in the consultation paper distort the picture, as they do not show the distributional effect on the level of grant local authorities would receive.

We believe the two Interest Receipts sub-blocks should be retained until at least research has been carried out to examine the factors that contribute to authorities’ ability to generate interest receipts. The income from these receipts is very volatile as it depends on the level of authorities’ reserves (capital and revenue) and also the level of interest rates. There is insufficient time for this work to be completed and full consultation with local authorities to be undertaken before the provisional 2006/07 RSG Settlement is announced in the autumn.

Damping

The purpose of formula grant is to provide a general grant to support all local authority services. Authorities are then free to decide how to spend this grant in line with their local priorities. The design of the general floor system ensures a minimum increase for all authorities to protect them from situations where they would otherwise lose funding. We do not support any damping at individual service block level.

Chapter 2: Schools Transfer

1. Do you think there should be a customised damping system?

The proposal to remove local autonomy and accountability by centralising schools' funding is something we continue to oppose and any comments we make on the consultation paper do not in any way indicate our support for the underlying proposal.

We welcome the fact that the government have recognised that local authorities nationally spend well in excess of the funding provided in order to deliver quality education. However we do not accept that this additional funding, raised by council taxpayers, should now be taken away from Warwickshire and other like-minded authorities, for the government to decide how to allocate it and which authorities across the country should receive it. If the centralisation of schools funding is to happen then we believe that the government should fund any difference between the schools FSS and the amount to be allocated as DSG.

The proposal to make the transfer at the level of budgeted spend simply penalises or rewards authorities for past spending decisions. In Warwickshire and other authorities spending above the schools FSS the level of spend above SFSS has been perpetuated through the application of the Minimum Funding Guarantee (MFG), which has locked in the original local decision to spend at these increased levels. Authorities spending above the SFSS level of funding are deprived of funding that could be diverted to providing other local services, while those authorities that have chosen not to spend all of their allocation in that area are rewarded by damping the amount of grant they are set to lose.

We would also like to express our agreement with the concerns raised by the CCN on the communication with the general public about the changes to schools funding. Just because the budget requirement drops does not mean that we will be spending any less. A significant part of the income raised from Council Tax used to go towards educating the future workforce, and this will no longer be the case, however the public will not see a reduction in their Council Tax because the proportion of other services funded by the Government drops at the same time.

Therefore, using the budget requirement as the normally quoted version of "the County Council's budget" would be highly misleading. Similarly, quoting gearing ratios based on the budget requirement gives a false impression, since the (nominally) supplementary specific grants could actually total four times the "main" Formula Grant.

Police authority budgets are often quoted gross of Principal Formula Police Grant in order to give a more accurate representation of the actual scale of spending and we feel the same convention should apply to the DSG. We

would welcome early confirmation, by the government, that this convention will in future also apply to spending on children's' services.

In terms of the specific question asked, we believe the purpose of formula grant is to provide a general grant to support all local authority services, within a single system of resource equalisation based around the level of ANCT. Authorities should be free to decide how to spend this grant in line with their local priorities.

The design of the general floor system supports this by ensuring a minimum increase for all authorities to protect them from situations where they would otherwise lose funding. Therefore **we do not support any damping at individual service block level and we do not support a customised damping system for the impact of DSG** on the funding available for other local authority services.

The proposal to introduce damping in both this block and the children's personal social services block is another example of government departments trying to operate a grant system within a system. This undermines the accountability of local government and undermines the basic principles on which the current system is based.

2. Do you have any 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?

We accept that the proposed method of adjusting grant on the basis of budgeted spend will be relatively easy to implement. However, we have concerns about the spend above or below SFSS and how this will impact which are detailed above in answer to question 1.

We believe non-education authorities should not be isolated from the effects of the DSG transfer. Ring-fencing this transfer would result in inconsistencies across different classes of authority e.g. lower tier services would be protected in two tier areas but not in unitary authorities. Fire and Rescue services would be protected when delivered by CFAs but not when delivered by county councils.

The modelling of the transfer with the proposed protection shows that both ANCT would increase for shire counties like Warwickshire. The exemplifications shown in the consultation paper do not reflect the increased council tax which authorities such as Warwickshire would be expected to generate. It therefore presents a distorted effect of the impact of any damping and hides the redistributive effect of the changes in ANCT. In effect it provides a further hidden level of resource equalisation – something we are strongly opposed to.

We are also concerned about the consistency of the options presented. There appears to be no consistent link between the difference spending above or below the level of SFSS and level of the damping applied.

We believe that any damping should be applied across all authorities equally and therefore non-education authorities should not be protected.

Chapter 3: New Grant System

3. Whether we should use the proposed alternative grant system?

We support the Government in its work to develop a new method of grant distribution that meets the criteria of a fairer, simpler, more intelligible and more stable system.

We do not feel that the proposed new method for distributing grants meets the Government's criteria of simplification or the removal of notional spend. The alternative method as it stands, still contains FSS formula elements (notional levels of spend) and assumed taxbase calculations and as such we do not feel that it is a simplification on the current methodology. The Government has also proposed a method of taxbase damping using the "Four Block" model, which not only contains an authority's taxbase but also retains ANCT (Assumed National Council Tax).

We are also concerned about the relative size of each of the Needs, Resource and Basic Amount blocks being set by ministerial judgment. We feel that methods that contain judgement only serve to reduce the transparency of the system unless this judgment is explicit and clearly stated. Any judgemental decisions made would be no more transparent than those already included in the current system.

We support the view of all the local government associations that this is a very turbulent time for local government finance, with the transfer of schools' funding away from Formula Grant, the introduction of three-year settlements and the implementation of any recommendations from the Lyons review. As a result we believe that this is an inappropriate time to introduce such a change.

The level of consultation with the wider local government communities has been minimal on this issue and the proposals in the consultation paper raise many questions because of an inherent lack of detail. At best these proposals can only form a basis for further discussion over the next three years of the formula freeze and by which time the way ahead on many of the key strategic issues facing local government may be clearer.

We do not support the use of the proposed alternative grant system.

Chapter 6: Education – LEA Block

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

Although the responsibility for Further Education colleges transferred from LEAs in 1993, the residual element for lecturers that retired pre-1993 continues to remain a significant element of expenditure for some LEAs (£30m in total). This coupled with significant differences between those authorities that did or did not provide substantial further education provision make a compelling case for this element continuing to be relevant.

However, it is accepted that there are problems with the data currently used. The increases in predicted spend in this area by certain authorities (when residual pensions liabilities must in real terms be decreasing over time) give weight to the general argument that planned spending data should not be used.

In itself this is not an argument for removing the residual pensions adjustment from the calculation, but rather for choosing a more reliable measure. The previous year's outturn figure for the Further Education residual pension expenditure would provide the element of reliability missing from budgeted figure, and should be considered as an alternative.

If this is not feasible and it is felt an adjustment is still needed then an alternative option of removing this element from the formula completely and reimbursing local authorities for the actual costs incurred by way of a specific grant should be considered.

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

The purpose of formula grant is to provide a general grant to support all local authority services. Authorities are then free to decide how to spend this grant in line with their local priorities. Therefore we believe any damping should be calculated at the level of the whole authority. We do not support any damping at individual service block level.

To try and cushion the effect of formula changes in this and a number of other specific service areas means giving implicit support that the need to spend as assessed by the formula is "right". This is something the government has consistently rejected in all other forums, including in this consultation paper. It is also something we have opposed for many years.

We therefore support the proposal to remove the LEA damping sub-block.

Chapter 7: Social Services

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

We believe that the research completed by the University of York is a considerable improvement on the current formula. We support the use of recent data and whilst the Children in Need Census is dated 2003, it is still 12 years more up-to-date than the current reliance on the 1991 census. A combination of the size and breadth of the sample (141 councils), along with the high degree of correlation of variables included in the model, ensure that this model is very strong and stronger than many of the other proposed as part of this consultation.

Therefore we support the Government's proposal to implement the option outlined under option SSC1.

7. Which option for updating the Foster Care Adjustment do you prefer?

The aim of the Foster Cost Adjustment is to model the differing costs of fostering children in different areas of the country (which are different to wage costs). As with option SSC1, we support the implementation of formulae that are based on up-to-date information.

However, neither of the two models proposed are well specified nor possess variables with a high degree of correlation. Both contain variables relating to ethnicity, educational qualifications and the occupation of women and as a result there is little to differentiate the models in that area. We are therefore disappointed in the models proposed.

If one of the options needs to be chosen, we would support the implementation of SSC2, as it is statistically the stronger model.

8. Do you think 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?

The design of the general floor system ensures a minimum increase for all authorities to protect them from situations where they would otherwise lose funding. We do not support any damping at individual service block level.

Also this proposal is inconsistent with the proposal to remove the damping in the LEA block and the 2005/06 removal of ceilings from the system. We reiterate our opposition to using service related targets rather than having an overall calculation of grant.

We do not support the option for introducing floors; ceilings or scaling factors to limit the extent of any changes in the children's services FSS.

9. Which needs formula option do you prefer SSE1 or SSE2?

Both options have their merits and demerits.

We accept that option SSE1 is based on a similar methodology to the current formula and uses more detailed information than the alternative SSE2. Theoretically this is the better of the two options as it is based on actual client characteristics as opposed to the characteristics of the area in which the clients live. However, we do not believe that the sample size used for the model, as shown in the consultation paper, of less than 400 residential and domiciliary clients is acceptable for a formula distributing £10.7 billion to over 120 different authorities. We are also concerned that late into the consultation process the SSE1 model is still preliminary and will be further updated as additional information is provided to increase the currently inadequate sample size.

The second option (SSE2) has a larger sample size of nearer 75,000 and this fact alone gives it an advantage over option SSE1. However, we are concerned that doubts have been raised about how some of the 2001 census data has been incorporated into the indicators used in this model and that so late in the consultation process these concerns have yet to be resolved.

Introducing further changes so late in the consultation process gives very little time for the proposals to be properly considered.

Over and above these technical considerations, we find the exemplifications included within the consultation paper very unhelpful. They do not take account of the transfer of the specific grants for Preserved Rights and Residential Allowances and allowing for these significantly changes the pattern of gains and losses. The clients currently funded by these grants, which the FSS formula will in future provide the funding for, are by their very nature different in their characteristics from those currently funded by the formula or new entrants to care. All have been in care for over a decade. We do not believe the specification for either model has allowed sufficiently for the impact of these clients on the actual costs being faced by local authorities.

Given the fact that neither of the options are finalised and that the implications of the transfer of preserved rights and residential allowance specific grants into the resources to be distributed by this formula has not been adequately represented **we do not believe it is possible to support either of the options at the present time.**

10. Do you agree with the proposal to revise the Low Income Adjustment to include 2001 census data?

We have argued for the inclusion of 2001 census data in all FSS formulae for several years. Hence **we strongly support this proposal** to revise the low income adjustment to include 2001 census data.

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

Both options use measures of sparsity that correlate well to costs. As neither option changes the distribution of grant significantly from the existing model, and neither is demonstrably superior, **we support the introduction of SSE4 as it most closely matches the construction of the existing model.**

Option SSE5, using the nearest neighbour model is a fundamentally different way of allowing for the extra costs of rural areas than is used in all of the other service blocks. Its introduction would add to the complexity of the formulae overall.

We do not support the introduction of SSE5. If the changed method of calculating the sparsity allowance is to be introduced then this should be on technical merits and introduced across the board.

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

The research by the Countryside Agency, which was discussed at the Settlement Working Group showed considerably higher costs in rural areas. We would therefore fully support a move to increase the sparsity weighting above 0.4%.

13. Which option do you prefer for the Younger Adult Social Services formula?

Both options provide statistically sound models with a high degree of correlation between the variables used. However, whereas option SSA1 is based on the cost of services and takes account of service intensity, option SSA2 is only based on the numbers of adults using services. Option SSA2 therefore implicitly assumes the pattern of intensity of service need is constant across all authorities.

At a local level we know there is significant variability in the intensity and hence cost of service provision to different younger adults depending on their assessed level of need. Given the known degree of local variability we do not believe it is reasonable to assume the variation in service needs between individuals is constant across all authorities. Without evidence that

this assumption is valid we do not believe option SSA2 should be implemented. Option SSA1 is therefore inherently technically superior.

As well as being the technically better model of the two SSA1 is also simpler due to the smaller number of variables in the calculation.

For these reasons we would support the introduction of SSA1 and oppose option SSA2 as we believe it wrongly specifies local authorities need to spend by focussing on client numbers.

Chapter 8: Police

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

Whilst not directly affected by the proposals for the police formulae, we would support the response made by Warwickshire Police Authority on this element of the formula.

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

See question 14.

Chapter 9: Fire and Rescue

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

We have long been a supporter of using the most up-to-date information in calculating resources so that all authorities receive the correct level of support from the government. **We therefore support the use of the 2001 census data information for the updated indicator for FIR3.**

However, we do not support increasing the weighting for community fire safety from 3% to 6%. The proposed increase is judgemental. Until there has been some research undertaken to show that the proposed doubling of the allocation for community fire safety reflects an increased need to spend by fire and rescue authorities **we cannot support the proposal made in FIR4.**

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?

We support the proposal to use the property and societal risk indicator (FIR5) to replace the fire safety enforcement indicator for which the data collation is being discontinued. We believe that by calculating the new indicator based on the level of risk associated within each authority, all authorities will receive resources with which they can plan to minimise the possible effects of these risks.

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

The Fire Risk Index was introduced previously to replace the count of fire calls and is determined using variables with a strong correlation to all types of service call. Although the indicators are not intuitively obvious causal factors of service calls, the fact that they are highly correlated to the number of calls received makes them a good indicator and no clear case has been made for removing them.

The problem identified with two of the S.E.H. (Survey of English Housing) based indicators is their volatility. We believe the option put forward in FIR6 of keeping these strong correlated variables, whilst increasing their averages to 5 years for smoothing is a sensible move.

We therefore support the use of FIR6 as the risk indicator.

We believe a satisfactory case for introducing option FIR7 has not been made. The introduction of indicators that more intuitively reflect household risk, as FIR7 is said to do, is not in itself a reason for change if they do not increase the levels of correlation substantially.

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

We support the proposal to include a fixed element for sparsity (FIR8) in the Fire FSS. In more sparsely populated areas the approach that must be taken to fire safety is different to that of more densely populated areas. Therefore, an element of funding to reflect this should be included within any formula changes.

Warwickshire Fire and Rescue Authority operates 12 retained fire stations, 3 day crewed stations and only 4 whole-time stations, reflecting the sparsity of its population.

Costs of training retained fire fighters are higher than those for whole-time fire fighters and recruitment and retention of retained fire fighters is difficult which often leads to increased costs. In addition it is more expensive to deliver community fire safety in rural areas covered by fire fighters on the retained duty system and there is less scope to develop more efficient duty systems, shift patterns and crewing arrangements to enable a more effective

delivery of community fire safety. We have to maintain a higher level of staffing on retained stations due to inflexibility in the movement of staff between stations in order to maintain staffing levels.

Finally, the overheads associated with running and maintaining the infrastructure of a fire station are similar irrespective of the number of call outs.

Including a sparsity element within the formula to reflect this situation will therefore help to reflect our needs.

However, although we support the introduction of FIR8 with a judgementally determined percentage, we would hope in future that the judgementally determined percentage could be replaced with an analysis of actual costs.

Chapter 10: Highway Maintenance

20. Do you think back lanes should be included in the highway maintenance formula?

We do not agree that back lanes should be included in the formula. The exemplifications show that the FSS changes would, for most authorities, be very marginal, and for some zero. We note also that there is no standard definition of back lanes. The definition provided by Ordinance Survey makes no reference to whether the back lane is Adopted. As a result there is likely to be inconsistency of treatment in data collection between highway authorities.

We do not consider that this change is worth the added complexity to the system.

The ODPM should consider adding indicators to the formula for public rights of way, bridle paths and cycle paths to take account of the spending on these, and to encourage their use as alternative means of transport to the car.

Chapter 11: Environmental, Protective and Cultural Services

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

Although this particular proposal has no impact on Warwickshire County Council as a general principle we support alterations to formulas to reflect the changes to responsibilities. However we feel that the use of judgment to set coefficients is neither robust nor transparent.

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?

We are disappointed there is no specific proposal on a separate FSS block for waste management. Given that the level of expenditure nationally on this service is 40% more than on fire and 30% more than on highways maintenance we believe the development of a separate FSS is justified. Question 21 proposes adjusting the formula for the additional £350 million RSG for the expansion of the concessionary fares statutory scheme, whereas waste management costs are increasing each and every year by amounts not far short of this value.

We do not agree with the ODPMs assertion (consultation paper paragraph 202) that this would be a major increase in the complexity of the system, especially considering other changes proposed elsewhere in the paper such as New/Alternative Grant Systems, and also the Schools Transfer. We also do not agree with ODPMs assertion that there would be “little gain in the accuracy of distribution of grant”.

We support the establishment of a separate Waste Management FSS block, as recommended in the research undertaken by PwC on behalf of the CCN and presented to the Settlement Working Group.

Should a separate Waste Management FSS block not be established, **we believe the ODPM should consider re-weighting the EPCS coefficients to take into account expenditure on waste.** The research carried out by PwC has clearly shown that the only significant indicator of “need to spend on waste” is resident population (adjusted for area costs).

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

We support the proposed updating of the fixed cost element from £300,000 to £325,000 and accept that this should be funded with resources from elsewhere in the EPCS block.

24. Do you agree with the proposed method for transferring COWs to the Environment Agency?

Although this particular proposal has only a minimal impact on Warwickshire County Council as a general principle we support alterations to formulas to reflect the current responsibilities of authorities. **We therefore support the proposed method of transferring COWs to the Environment Agency.**

Chapter 12: Capital Financing

25. Do you think we should remove the interest receipts element?

The purpose of the two interest receipts sub-blocks is to recognise that authorities have differing capacities to generate capital receipts and differing needs to hold balances depending on both the extent and range of the services provided.

The only reason given for the proposal to remove the interest receipts elements of the formula is improving simplicity. But whilst laudable this shouldn't override the principle of fairness. Unless it can be shown that the methodology chosen for removing the two interest receipts blocks reflects these differing capacities we cannot support the removal of the interest receipts blocks.

We are opposed to the removal of the Interest Receipts blocks without a reduction in other FSS blocks. Without this reduction the option becomes just another layer of resource equalisation, with an increase in control totals with no corresponding increase in formula grant, authorities will see an increase in ANCT. The exemplifications as presented in the consultation paper distort the picture, as they do not show the distributional effect on the level of grant local authorities would receive.

We believe the two Interest Receipts sub-blocks should be retained until at least research has been carried out to examine the factors that contribute to authorities' ability to generate interest receipts. The income from these receipts is very volatile as it depends on the level of authorities' reserves (capital and revenue) and also the level of interest rates. There is insufficient time for this work to be completed and full consultation with local authorities to be undertaken before the provisional 2006/07 RSG Settlement is announced in the autumn.

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

No changes should be made at this time for the reasons given in the response to question 25.

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?

If the interest receipts blocks are to be removed then, as outlined in our answer to question 25, the other FSS control totals should be reduced by an equivalent amount. There is one key criteria for determining how the control totals should be adjusted – namely it should reflect authorities ability to generate interest receipts. As such the two sub-blocks should be treated separately.

The sub-block for interest earned on unused capital receipts is a function of the value of assets held by authorities and the level of unused capital receipts currently held. It is this data that should be used to adjust the other control totals for this service sub-block.

The sub-block for interest on revenue balances is much more a function of the size of the authority and the services it provides. Therefore to reduce the other service block control totals accordingly would seem to be an acceptable way forward.

Neither of these two proposed distribution methodologies is a satisfactory long-term alternative based on research to examine the factors that contribute to authorities' ability to generate interest receipts.

Therefore neither of the two options as presented in the consultation paper can be supported.

In particular, option CF2 is only sustainable if all interest receipts are used to fund capital expenditure. This is clearly untrue as it is districts that generate most of the interest on capital receipts but it is highways and education authorities that incur most of the capital expenditure.

Chapter 13: Area Cost Adjustment

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

We support the principle that the higher costs faced by local government, due to the local labour market, should be recognised.

The full ASHE survey is an improvement on the data set currently used as it provides a more representative view of earnings, including improvements to the coverage of employees and to the weighting of earnings estimates.

29. Do you think we should remove the very small rates cost adjustment, or do you think we should update the weighting of the RCA in line with 2003/04 expenditure data?

The proportion of expenditure spent on rates is falling each year across local government and hence the rates cost adjustment is distributing a smaller and smaller amount of grant each time it is updated. We believe that the point has now been reached where the benefits of fairness from including the adjustment are outweighed by the simplification that could be achieved if it were removed. The removal of the rates cost adjustment would focus the ACA solely on the labour costs faced by an authority.

We therefore support the Government's proposal to remove the rates cost element of the ACA.

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

We support the government's proposal to retain the current method of setting the lower limit for options ACA1-3. The debate as to where to set the floor for ACA was a significant part of the debate when the current ACA methodology was introduced. No compelling evidence has been presented as part of this consultation process that this original decision should be revisited.

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

We support the proposal to calculate a separate ACA factor for each upper tier authority. We believe the existing larger ACA areas, particularly in the metropolitan areas and London are too crude and unsophisticated and as such do not discriminate between authorities with very different wage pressures. In contrast, the proposals would be permit a considerably fairer allocation of resources more closely reflecting the reality faced by authorities.

The use within the proposal of an well-established and proven smoothing factor (currently used by the NHS), enabling the effect of commuting to be taken into account and minimizing 'cliff-edges' between areas, enhances the argument for using a revised ACA factor still further.

We support the introduction of option ACA5.

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

As in our answer to question 30 we believe the current method of setting the lower limit for options ACA1-3 should be retained. The debate as to where to set the floor for ACA was a significant part of the debate when the current ACA methodology was introduced. No compelling evidence has been presented as part of this consultation process that this original decision should be revisited.

We believe that the decision to set the ACA at the level of every up tier authority is an acceptance that the current methodology does not sufficiently distinguish between the additional costs faced by local authorities. Therefore it is wholly incompatible to overlay this with a system of floors that significantly reduces and in many cases eradicates the differences between authorities.

We therefore believe that whichever option for setting the ACA is agreed the process for setting the level of the floor should not be changed.

Chapter 14: Additional Resource Equalisation

33. Do you think we should increase resource equalisation?

Local authorities are frequently reminded by central government that FSS should not be used as comparators for spend between services, nor a measure of increases in Council Tax. Therefore we believe that for the Government to increase the control totals in line with historical spend for a number of FSS blocks, in what would be an attempt to model the current actual spending and tax levying would completely contradict the governments stated position on the relationship between FSS and spend. If the FSS is truly not a guide as to how much local authorities should spend then the control totals should not be altered to reflect spend.

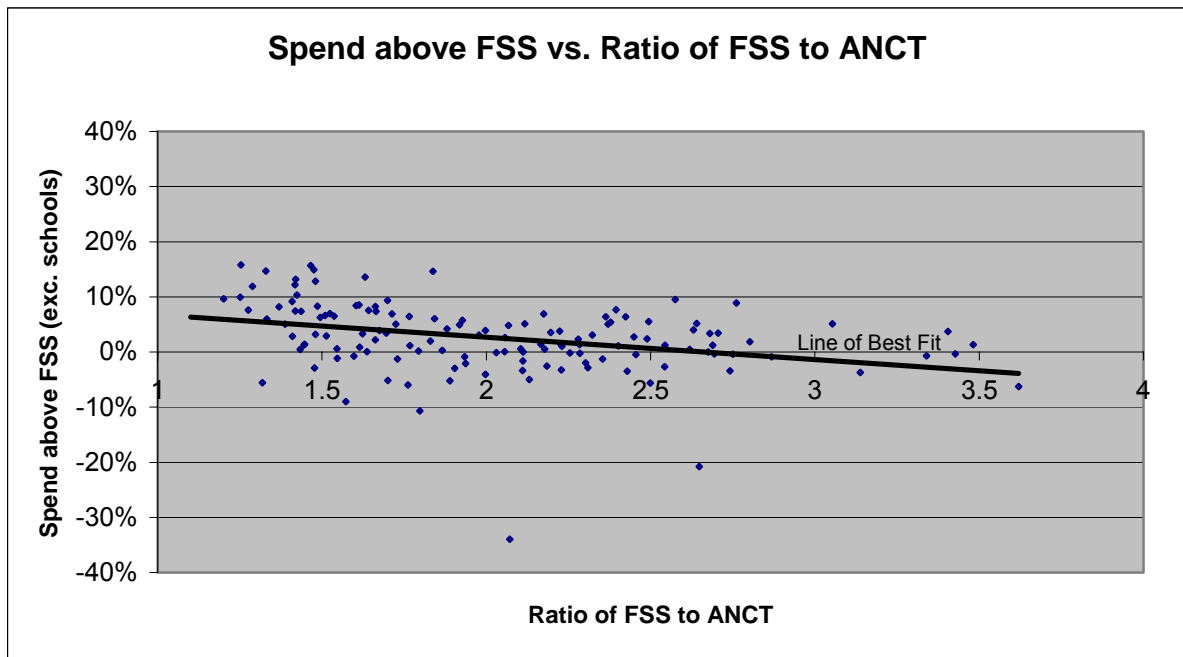
The government are currently in the process of developing a new method for distributing grant to local government. They state that they want this alternative method to move away from notional levels of spend and taxation. Yet here we see here the government attempting to alter the current formula (which is also not meant to be a measure of spend or taxation) to match current spend and taxation.

Therefore, it is our view that extensive impartial research is needed – following the publication of the findings of the Lyon’s Review, before the Government introduce further resource equalisation.

One of the ironies of the current proposal is that in its stated aim of reducing the gap between spending and FSS the system proposed actually has the opposite effect. We have argued since the FSS system was introduced that the FSS formula under-estimates the needs of authorities with average needs as too much allocated in top-ups for deprivation etc and not enough on the basic amount.

At individual authority level it is lower need, higher taxbase local authorities that tend to spend above FSS and are thus the main cause of council tax being greater than ANCT. Overall we believe this is because of the inability of the FSS system to adequately reflect their needs. By introducing resource equalisation to try and “solve” this problem the options in fact make it worse. The gap between spend and FSS for high taxbase authorities would actually grow!

The evidence for this is shown in the graph below, where the lower an authority’s FSS in relation to its taxbase the more likely it is to need to spend above FSS to meet its local needs.



The Government are also proposing, in this same consultation paper, options for damping on the basis of ANCT and uplifting the control total for the removal of the interest receipts blocks. Both of these options are further degrees of resource equalisation, which the analysis above has shown will only increase the difference between, spend and FSS and potentially force up council tax levels significantly in shire areas.

We are strongly opposed to any extension of resource equalisation along the lines proposed in the consultation paper. Until the calculation of FSS adequately reflects the spending needs of all types of authority (including average authorities) further resource equalisation should be resisted.

34. Which of the options do you prefer?

We do not support any further resource equalisation without extensive research being carried out and therefore do not support any of the options in the consultation paper. Please see answer to question 33.

Chapter 15: Floor Damping

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

The Government states that continuing to include the capital adjustment within the damping process only serves to penalise authorities with large

outstanding debts at 1 April 1990. Considering the Government's aims to eventually produce a new simpler method of distributing grant the removal of this element of the damping would support this principle.

Therefore, we support the Government's option to remove the capital adjustment from the floor damping mechanism.

The purpose of formula grant is to provide a general grant to support all local authority services. Authorities are then free to decide how to spend this grant in line with their local priorities. The design of the general floor system ensures a minimum increase for all authorities to protect them from situations where they would otherwise lose funding. We do not support any damping at individual service block level.

However, whilst opposing any specific damping in principle we believe that if damping is to be applied, then it must be applied consistently. There are many examples of an inconsistent approach throughout this consultation. For example, it is proposed to remove the damping in the LEA block, but introduce it in the Children's PSS due to the size of the distributional change, but then not to introduce it for Older Peoples PSS, where changes are as significant for many authorities. Where damping is to be applied within sub-groups, rather than overall, then it should be applied consistently and across the generality of authorities.

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

The purpose of formula grant is to provide a general grant to support all local authority services. Authorities are then free to decide how to spend this grant in line with their local priorities. The design of the general floor system ensures a minimum increase for all authorities to protect them from situations where they would otherwise lose funding. **We do not support any damping at individual service block level.**

We support the retention of the current method of damping that is a general floor system and do not support either DMP2 or DMP3 as outlined in the consultation paper.

We also support the current level of differentiation in the level of the floor for authorities with differing needs to increase spending due the nature of the services provided.

The DMP2 option is for the Government to damp an authority's formula grant on taxbase. This option is basically another form of resource equalisation, and as such we oppose this damping option for the same reasons outlined in our response to question 33.

Option DMP3 is suggesting that formula grant could be damped from year to year on an authority's basic amount. The consultation paper is not clear

about this option, but we assume that this option is referring to an option for damping that is only (realistically) possible with the proposed alternative grant distribution. As we strongly oppose the introduction of the new method of grant distribution proposed in this consultation paper for the reasons outlined under question 3 we cannot support this option.

Chapter 16: Day Visitors

37. Would you prefer us to use the new day visitors' indicator?

The current day visitor data uses information as much as 17 years out of date and therefore we support using a more up-to-date data source. Whilst we understand that a "new-for-old" update has not been possible and that some concerns have been raised about the quality of the data we do support the introduction of the new data, with a 10-mile local trip cut-off.

Additional Questions following Publication

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?

We have no strong views on the use of either September or January pupil counts in the calculation of the Education-LEA FSS or Dedicated Schools Grant.

However, given the DfES statement that continuing to use the September count could lead to unreliable data and despite the time lag that will be introduced if the January pupil count is used we support it's introduction.

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

We support the inclusion of up-to-date and accurate data in the formula. As such, we support the changes proposed here.

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 a floor and scaling factor?

We do not support any proposal for introducing floors, ceiling or scaling factors to limit the extent of any changes in the children's social services FSS

41. Do you agree that an adjustment to the 2001 census output area density indicator, used in both the EPCS and police blocks should be made?

We support the inclusion of up-to-date and accurate data in the formula. As such, we support the changes proposed here.

Proposed Changes to the Formula Grant System

Category	Option	Description	Commentary	Financial Impact on WCC £m
Education - LEA				
A	EDU1	Updating the allowance for the additional cost of providing education in sparsely populated areas for data from the 2001 census.	<p>Currently the only data in the Education-LEA formula that uses 1991 census data is the sparsity allowance. This option updates this to data from the 2001 census. The authority has supported updating all the formulae from the 1991 census to the 2001 census. To maintain consistency this option should be supported. It is also difficult to sustain an argument that the 1991 census data is more relevant when assessing the need to spend in 2006/07.</p> <p>One hidden change is that as a result of the new data the overall allocation for sparsity nationally is £8m lower. No evidence has been provided to support the implication that the relative costs of rural areas are lower. Therefore we should argue that the importance of this factor should remain unchanged until evidence supporting a change is available.</p>	-0.167
B	EDU2	Removing direct funding of college lecturer pensions.	The formula currently includes an allowance to cover the pensions costs of college lecturers retiring whilst colleges were the responsibility of local government. However, the ODPM have concerns about the data source as local authorities are reporting increased costs in the area, even though it is over a decade since colleges transferred out of local government. The ODPM are therefore proposing to delete the adjustment. On the basis of the evidence provided it is difficult to oppose this option.	-0.123
C	EDU3	Remove the special damping grant provided to some LEAs as part of the last formula review.	The purpose of formula grant is to provide a general grant to support all local authority services and any damping should be calculated at the level of the whole authority. To try and cushion the effect of formula changes in this and a number of other service areas means giving implicit support that the need to spend as assessed by the formula is "right". This is something we oppose in all other forums and should therefore support the removal of LEA specific damping now.	-0.002
B	EDU4	Update the formula using pupil numbers to the January count from the September count currently used.	The January pupil count will be used as a basis for the distribution of DSG. Moving to this data source would maintain consistency with the calculation of DSG and should be supported. This marginal change is proposed by the OPDM.	0.003

Category	Option	Description	Commentary	Financial Impact on WCC £m
		Social Services – Children’s		
			Reviewing the Social Services formulae has been a priority for this year’s formula review, mainly because of the current formulae’s extensive use of 1991 census data. All the research has been completed using surveys of social services users, by researchers commissioned by the DoH and the DfES.	
D	SSC1	This option proposes a different set of cost drivers to the current formula. The changes derive from an analysis of the Children in Need (CiN) Survey 2003.	<p>This is the only option being proposed by the government for updating the main needs formula for children’s social services. Opposing this would imply supporting the continued use of 1991 census data.</p> <p>The most significant change in formula is replacing “Children Living in Flats” (which primarily gives money to London) with “Children Without Good Health” (which has a smaller degree of variation between authorities). The increased need to spend resulting for WCC reflects the additional cost pressures being felt locally in this service area. This option should be supported.</p>	1.178
D	SSC2	An update of the allowance in the formula for the variation in the cost of providing foster care between authorities.	<p>This option is based on new research undertaken on behalf of the DoH to move from the 1991 census data to the 2001 census data. It replicates the research originally done to create the existing formula.</p> <p>Both SSC2 and SSC3 options contain variables relating to ethnicity, educational qualifications and the occupations of women. There is little to differentiate between the models. Option SSC2 is better statistically and should therefore be supported as the “best” of the two options.</p>	-0.145
E	SSC3	Alternative option to SSC2 to allow for the variation in the cost of providing foster care.	This option is derived from the same research as SSC2. It uses a wider range of indicators than SSC2 but statistically does not produce such good results.	-0.283
		Social Services – Older People		
D	SSE1	Updates the current formula by comparing the characteristics of a sample of older people in residential care or receiving domiciliary care with a sample that do not.	<p>SSE1 uses the same approach as the current formula. It results in higher deprivation weightings and age top-ups and a decrease in the basic amount per older person.</p> <p>There are problems with the sample size of this option with only 360 residential clients and 350 home care clients included. The sample is still being updated and it may be that this formula, if implemented, may look slightly different from the current model exemplified.</p>	-1.493

Category	Option	Description	Commentary	Financial Impact on WCC £m
E	SSE2	Replaces the current formula with a model based on matching social services clients to the characteristics of the area from which they come.	<p>Because this option works on characteristics of wards rather than individuals it has a much larger sample size (75,000) but with less detailed information on each client. This area-based way of modeling is the same as that used for calculating the children's formula.</p> <p>The ultimate choice of which option is preferable is a matter of balancing the sample size against the level of detailed information based on individuals.</p>	-1.746
A	SSE3	Indicator to reflect the different capacity of older people in an authority to contribute towards the cost of their care.	In practice this option updates the current "low income adjustment" for the 2001 Census data. The only indicator found to be significant is the proportion of older people living in rented accommodation.	0.122
A	SSE4	Update the current allowance for the extra costs of delivering home care to older people for data from the 2001 census.	<p>The sparsity adjustment reflects the extra costs of delivering home care to older people. The two options are proposed as replacements for the current measure, which uses 1991 census data.</p> <p>SSE4 is an update of the current formula for data from the 2001 census but uses the distribution of older people only as opposed to the whole population. It has very minor distributive effects.</p>	0.022
E	SSE5	Replacing the current allowance for the costs of providing the service in a sparse area with a measure from the 2001 census based on distance to the nearest neighbour.	<p>This option uses a measure of distance from the nearest neighbour. It uses the whole population rather than the client group of older people.</p> <p>This is a different way of allowing for the extra costs of rural areas than is used in all of the other service blocks. Its introduction would add to the complexity of the formulae overall. Therefore this option should be opposed. If the changed method of calculating the sparsity allowance is to be introduced then this should be on technical merits and introduced across the board.</p>	-0.031
		Social Services – Younger Adults		
			In service terms this formula is the calculation of the relative need to spend on services for people with learning difficulties, people with physical disabilities and people with mental health problems.	

Category	Option	Description	Commentary	Financial Impact on WCC £m
D	SSA1	Update of the current formula based on client numbers and relative need.	<p>This option uses the cost of providing services estimated from surveys and published national data. The ODPM acknowledge that this option is technically better than SSA2. The significant gain is because there has been a flattening out of the allowance for differential needs between authorities. This option is also the simpler of the two as it includes fewer variables.</p> <p>Given the range of service intensity to the clients covered by this service area any formula should reflect both the relative number of clients and the relative intensity of service provision. This option should therefore be supported.</p> <p>The increased allocation for this area also reflects the increased financial pressure on this service being felt locally.</p>	1.171
E	SSA2	Alternative option to SSA1 based on client numbers only.	<p>This option is similar to SSA1, the key difference being it estimates client numbers only. To support this option requires accepting the assumption that all authorities have the same pattern of client needs.</p> <p>The small loss is because there is a widening of the allowance for differential needs between authorities. On all the formula the County council gains the more is distributed on a fixed per head of population basis.</p>	-0.173
Fire Service				
F	FIR1	Effect of decreasing the total to be distributed by the Fire FSS for fire pensions.	<p>From 2006/07 fire pensions will in part be funded by a grant aimed at reducing the year-on-year volatility in the cost of fire pensions incurred by authorities.</p> <p>There are no alternative options for allowing for this change. The effect may be offset if the County Council receives some of the additional specific grant being made available. This makes it difficult to assess what the true impact on the County Council of this option will be.</p>	-0.565
B	FIR2	Replacing the "Category A" fire risk indicator with a new "Control of Major Hazards" sites indicator.	Following the introduction of the IRMP data on "category A" fire risk areas is no longer collected. A replacement indicator is therefore needed. This is the only option proposed.	-0.448
A	FIR3	Updating the community safety indicators for the 2001 census	The authority has previously supported updating all the formulae from the 1991 census to the 2001 census and this support should continue.	0.011

Category	Option	Description	Commentary	Financial Impact on WCC £m
F	FIR4	Increasing the importance of community safety in the formula from 3% to 6%.	The whole focus of the IRMP is moving towards prevention. The increased weighting to community safety would explicitly signal the change in policy by government. It is usual for FSS to be based on what is actually happening rather than judgementally signalling government policy changes therefore any changes of this nature should be part of the more fundamental review of the system of local government funding.	-0.017
B	FIR5	Replacement of the fire safety enforcement indicator with an indicator based on societal and property risk.	Since the collation of data necessary for the fire enforcement indicator is being stopped a replacement is necessary. This is the only option proposed and should be supported. The alternative would be to argue for the retention of out-of-date data that was not capable of being updated.	0.248
B	FIR6	Move from a three to a five-year average when calculating the fire risk index.	The fire risk index is an index made up of variables with a strong correlation to all types of service call. However, the data has proved to be volatile and one option is to smooth the data using a five year rolling average.	-0.007
E	FIR7	Replace the current fire risk index with an index made up of different factors.	This option is an alternative to FIR6. In selecting the indicators for this alternative index the ODPM has selected variables such as "average number of people per room" that intuitively are felt to be more closely linked to fire risk. It is difficult to support using an option that is statistically not as good as the current measure without supporting evidence.	-0.341
E	FIR8	Introduction of a sparsity indicator to reflect the higher cost of using retained fire fighters.	There is evidence that the training and retention of retained fire fighters is more expensive than whole-time fire fighters and it is argued these costs should be reflected in the formula by a measure of population sparsity, which has a strong relationship to the proportion of retained fire fighters. However, the purpose of the formula is to measure need to spend based on a pattern of risk that is independent of how an authority chooses to respond to that risk. The balance between whole time and retained fire fighters is a policy decision of each fire authority. We believe with response times etc there is a degree of risk/need associated with providing a fire service in sparsely populated areas and a sparsity factor should be included but that any indicator that perpetuates the local choice in type of fire fighter should be excluded. We do also not support the argument that it will be more difficult to realise the savings required by the fire modernisation agenda if an authority has a higher proportion of retained fire fighters.	0.175

Category	Option	Description	Commentary	Financial Impact on WCC £m
		Highway Maintenance		
			No fundamental changes are being proposed for this block and the financial effects are relatively small.	
B	HM1	Smooth the traffic flow data used in the formula by using a three-year rolling average.	As an authority we have previously commented on the volatility and unpredictability of this data. Therefore it is a natural extension of our previous position to support this change.	-0.149
A	HM2	Updating the data on the number of commuters for the 2001 census.	The authority has previously supported updating all the formulae from the 1991 census to the 2001 census and this support should continue.	0.001
E	HM3	Include "back lanes" as a new category of roads in the formula.	This option should be opposed as it directs money only to urban authorities. Also there is no standard definition of a back lane. There are numerous other types of "road" such as cycleways and other public rights of way that also require investment and any change in the source of data should reflect all types of road not cherry pick those that bring the greatest benefit to a particular type of authority.	-
		Environmental, Protective and Cultural Services		
A	EPCS1	Updating the data used in the formula for the 2001 census.	The authority has previously supported updating all the formulae from the 1991 census to the 2001 census and this support should continue.	-0.074
A	EPCS3	Updating the ethnicity indicator for the 2001 census	The authority has previously supported updating all the formulae from the 1991 census to the 2001 census and this support should continue.	-0.079
F	FD1	Transfer of responsibility for critical ordinary watercourses from to the Environment Agency.	The effect is negligible, but it is worth supporting an option, which more closely reflects the services the authority is actually responsible for.	-
F	FC1	Uplift the allowance for the fixed cost of being a local authority from £300,00 to £325,000.	The £300,000 has been fixed at this level for three years and is therefore due to be updated. This option provides such an update. Due to its size, it is the district councils that rely on this part of the FSS to top up their grant levels. It is reasonable to support this option, which benefits each of Warwickshire's districts by more than the £0.08m the county council loses.	-0.008

Category	Option	Description	Commentary	Financial Impact on WCC £m
		Capital Financing		
			The capital element of the FSS formula consists of two elements – debt charges, and interest on receipts. The options in the consultation paper are about removing the interest receipts element. The government believes the blocks have outlived their usefulness and proposes their removal.	
E	CF1	Remove the interest receipts block and make no corresponding adjustment to anything else.	This is the government's preferred option as it is the simplest. The effect of this would just be another layer of resource equalisation (see main body of Cabinet report) and should be opposed. At this stage it is not possible to quantify the grant effect.	Not quantified
E	CF2	Abolish the interest receipts elements and reduce the debt charges FSS accordingly.	Although it is not possible to quantify this option would be preferable financially for the county council. However, it is based on the mistaken premise that all interest earned only funds debt charges. In practice balances and any interest earned are used to fund the budget overall. This option should be opposed.	-1.767
E	CF3	Abolish the interest receipts elements and reduce all other FSS totals accordingly.	Although it is not possible to quantify this option would be the best financially for the county council. It is based on the assumption that any interest earned is used to fund the budget overall. This option should be supported as it reflects how local authorities operate in practice.	-1.335
		Area Cost Adjustment		
			<p>The area cost adjustment is intended to reflect varying cost pressures throughout the country. It contains two components, the labour cost adjustment (LCA) to reflect wage pressures and a rates cost adjustment (RCA) to reflect differences in business rates. The LCA is by far the larger of the two.</p> <p>The current area cost adjustment was introduced in 2003/04 and is generally considered to be an improvement on the previous measure, which only benefited London and the south east. Because the last changes were so recent updating the area cost adjustment is not a priority for the government.</p>	
E	ACA1	Expend the data source used for calculating the LCA to include more part-time workers.	This new data relates to part time employees who have more than one job. Given the expanding number of part-time workers in local government it is difficult to oppose this expanded data source. To oppose we would need to construct an argument that people with more than one job currently were not part of the potential local government workforce.	-1.248

Category	Option	Description	Commentary	Financial Impact on WCC £m
C	ACA2	Abolish the rates cost adjustment.	This should be supported. The RCA distributes only a very small amount of money and is a complex adjustment that adds benefit to only a very few large cities e.g. central London, Manchester, Birmingham.	0.086
E	ACA3	Partially abolish the rates cost adjustment.	This option adds another layer of complexity to the system by excluding social services properties from the adjustment, as they tend to be in “cheaper” buildings. In supporting ACA2, ACA3 is opposed.	0.049
E	ACA4	Calculate the ACA at upper tier level but with a very high threshold.	This option proposes calculating the ACA at the level of the upper tier authority rather than grouping councils together as under the current methodology. The data is more volatile as there is less of it and it creates bigger cliff edges between authorities. Increasing the threshold reduces the volatility for some authorities by simply significantly decreasing the number of authorities that attract the ACA. This defeats the objective of the 2003/04 change, which was based on authorities in different areas facing different wage pressures.	0.306
E	ACA5	Calculate the ACA at upper tier level retaining the current thresholds.	This option proposes calculating the ACA at the level of the upper tier authority rather than grouping councils together as under the current methodology. The data is more volatile as there is less of it and it creates bigger cliff edges between authorities. This is partially overcome by smoothing so each authority’s data reflects their own figures and that of neighbouring authorities. This option should be supported simply because of the financial effects.	3.539

Note

Those figures shown in **bold** in the final column of the table are the options included as part of the “likely position on the grant review” in section 11 of the main report.