

**AGENDA MANAGEMENT SHEET**

<b>Name of Committee</b>	<b>Leader Decision Making</b>
<b>Date of Committee</b>	<b>5 October 2010</b>
<b>Report Title</b>	<b>Response to the Consultation Paper on Local Government Formula Grant Distribution 2010</b>
<b>Summary</b>	The report seeks approval to submit the response attached at Appendix B to the Government as the formal response of Warwickshire County Council
<b>For further information please contact:</b>	Virginia Rennie Group Accountant Tel: 01926 412239 vrennie@warwickshire.gov.uk
<b>Would the recommended decision be contrary to the Budget and Policy Framework?</b>	No.
<b>Background papers</b>	Local Government Finance Formula Grant Distribution Paper issued by the Department for Communities and Local Government on 28 July 2010, including subsequent updates

**CONSULTATION ALREADY UNDERTAKEN:-** Details to be specified

- Other Committees  .....
- Local Member(s)  .....
- Other Elected Members  Cllr Tandy, Cllr Roodhouse, Cllr Saint
- Cabinet Member  Cllr Heatley, Cllr Farnell, Cllr Wright
- Chief Executive  .....
- Legal  Sarah Duxbury
- Finance  Dave Clarke - reporting officer
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....

Police  .....

Other Bodies/Individuals  .....

**FINAL DECISION YES**

## Leader Decision Making - 5 October 2010

### Response to the Consultation Paper on Local Government Formula Grant Distribution 2010

#### Report of the Strategic Director, Resources

#### Recommendation

To approve that the response to the Local Government Finance Formula Grant consultation, attached at Appendix B, is submitted to the Department for Communities and Local Government as the formal response from Warwickshire County Council

#### 1 Purpose of the Report

- 1.1 On 28 July 2010 the Department for Communities and Local Government (CLG) published details of the consultation on the formula to calculate local government finance settlements from 2011/12 onwards. The full consultation paper and exemplifications of the proposals to change the formula are over 400 pages long and can be accessed via the CLG website. The consultation is due to close on 6 October.
- 1.2 The Government reconfirmed in the consultation paper that the 2010 Formula Review mainly looked “to update and [finely] tune the existing system”. It therefore did not represent a fundamental review of the distribution system. It is hoped that a more comprehensive review will form part of the forthcoming local government finance review, which will take place in 2011.
- 1.3 The purpose of this report is to seek approval of the response to the Local Government Finance Formula Grant consultation from Warwickshire County Council. **Appendix A** contains a briefing on the proposals contained in the consultation paper and **Appendix B** the proposed response on behalf of Warwickshire County Council on the 25 specific questions.
- 1.4 The updated Formula Grant Distribution System will be announced as part of the 2011/12 Provisional RSG Settlement announcement at the end of November/early December.
- 1.5 The technical nature of the response to CLG and the number of specific questions in the consultation paper requires a systematic approach be used to assess 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 B has been prepared in accordance with these principles.

- 1.6 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 contradictory arguments.
  - The response is consistent with policies/submissions previously made by the authority.
  - The options supported are technically valid and reflect the key criteria in determining the need to spend on a particular service.
  - Wherever possible the most up-to-date data available is used.
- 1.7 Whilst the response itself is detailed, the overall effect of the options recommended for support/opposition would, if implemented, result in a notional increase in Formula Grant for Warwickshire of about £3 million. However, even if these options were all implemented, the actual impact is impossible to predict. It would depend on the interactions between the options, the level set for minimum grant changes and how those elements of the formula subject to ministerial judgement are used to influence the final shape of the settlement for all authorities. It should also be noted that the impact of these distributional changes is unlikely to be as significant as the change to the quantum that is anticipated as part of the Comprehensive Spending Review.

DAVE CLARKE  
Strategic Director, Resources

Shire Hall  
Warwick  
October 2010

## Local Government Finance Formula Grant Distribution – Briefing on the Consultation Paper

### Background

The Formula Grant distribution system was last reviewed before the 2008/09 local government finance settlement. This briefing provides a summary of all the options for grant distribution changes that could be introduced for the 2011/12 settlement onwards.

The system divides a finite pot of available grant (which is determined in the spending reviews) between all local authorities in England. The system considers local authorities' individual circumstances, their needs and their potential to raise resources locally, relative to all other councils which provide the same services, by reference to a number of mathematical formulae.

The Relative Needs Formulae take account of an authority's relative need by considering a number of factors which appear to explain variations in the cost of providing services. The system also takes account of that fact that areas that can raise more income locally require less support from government to provide services, and looks at authorities' potential to raise resources through council tax relative to other councils. To ensure stability in the financing of local services the government then sets a "floor" or lower limit to any authority's change in their Formula Grant allocation year-on-year.

### Adult Personal Social Services

There is only one change proposed, relating to social services for older people. The relative needs formula for social services for older people consists of a basic amount per person aged 65 and over and top-ups for age, deprivation, sparsity, low income from fees and charges and area costs. The proposed change relates to the low income element of the formula.

The Low Income Adjustment (LIA) takes account of authorities' ability to raise income from fees and charges. Currently income and expenditure data from the 2005/06 is used to derive the LIA. CLG would like to update the LIA using data from 2008/09.

#### Option OPPSS1 – WCC loses £79,000

*Update the 2005/06 data with 2008/09 data to derive the Low Income Adjustment*

### Police

The police formula first divides funds between five police activities or workloads – crime, incidents, traffic, fear of crime and special events, with an additional allowance for sparsity to reflect the higher costs of policing in rural areas. The second stage is to divide funding for each of these workloads between the 43 police authorities.

The current splits are derived using average 2004/05 and 2005/06 activity based costing data. This dataset is no longer collected but proposals suggest using average data for the most recent three-year period (2004/05 to 2006/07).

#### Option POL1 – WCC loses £11,000

*Update police workload funding splits from average 2004/05 to 2005/06 ABC data to average 2004/05 to 2006/07 ABC data.*

The relationships between the workloads and the workload indicators are based on analysis of reported crime per head of population at Community Safety Partnership (CSP) level. The resulting trends are then aggregated up to create a force level number. In some cases the average across the police force area is not representative of some smaller parts within it. The proposal is change how the aggregation from CSP to force level data is done.

Option POL2 – WCC loses £42,000

*Replace the Log of Bars per 100 Hectares indicator with Log of Weighted Bars per 100 Hectares*

## **Fire and Rescue**

The main determinants of the existing Fire and Rescue Relative Needs Formulae are the resident population and fire safety. Cost adjustments are made to reflect coastline, deprivation, the number of major hazard control sites and area costs.

The basic amounts for the coastline, deprivation and high risk top-ups coefficients are determined by regressions against past expenditure. Currently the expenditure data used is averaged over 1998/99 to 2000/01. CLG propose updating this with expenditure data averaged over 2006/07 to 2008/09.

An alternative option proposes to further adjust the expenditure data to help overcome any perverse incentive for making efficiency savings. In this option CLG propose using FIR1 plus annual cashable efficiency savings, averaged over 2006/07 to 2008/09 as reported in the Annual Efficiency Statements.

Option FIR1 – WCC gains £374,000

*Update the regression expenditure data averaged over 1998/99 to 2000/01 to expenditure data averaged over 2006/07 to 2008/09.*

Option FIR2 – WCC gains £336,000

*Update the regression expenditure data averaged over 1998/99 to 2000/01 to expenditure data plus annual cashable efficiency savings, averaged over 2006/07 to 2008/09.*

The allowance for fire safety is made by reference to a Fire Risk Index. The Fire Risk Index contains a group of indicators that have a relationship with the number of incidents that fire and rescue services attend. The current risk index uses a combination of six factors and was introduced in 2006/07:

1. Proportion of children of Income Support/Income based JSA Claimants
2. Proportion of households not containing a couple with no children
3. Proportion of people living in rented accommodation
4. Average number of absences in pupils of primary school age
5. Average number of rooms per household resident
6. Proportion of people in ACORN type 50 (single elderly people, council flats) and type 53 (old people, many high rise flats)

After rerunning the statistical process using more up to date incident data, CLG are proposing two options that are found to better predict the number of incidents.

Option FIR3 – WCC gains £642,000

*Update the existing Fire Risk Index with the following factors and include population sparsity as a separate (negative) indicator:*

1. *Proportion of people of working age with no qualifications*

2. *Proportion of people of working age who are not in employment (i.e. on New Deal, receive Incapacity Benefit or Severe Disablement Allowance, or receiving apprenticeship training)*
3. *Proportion of people receiving Income Support/Income based JSA/guarantee element of Pension Credit*
4. *Proportion of people in ACORN Group G: Starting Out (reflecting Type 24: Young Couples, Flats and Terraces and Type 25: White-Collar, Single and Sharers, Terraces)*
5. *Standardised Mortality Ratio: 0 – 74 years*

**Option FIR4 – WCC gains £767,000**

*Update the existing Fire Risk Index factors with the following factors also including population sparsity as a separate (positive) indicator.*

1. *Proportion of people of working age with no qualifications*
2. *Proportion of people of working age who are not in employment (i.e. are on New Deal, receive Incapacity Benefit or Severe Disablement Allowance, or receiving apprenticeship training)*
3. *Proportion of people receiving Income Support/Income based JSA guarantee element of Pension Credit*
4. *Standardised Mortality Ratio: 0 – 74 years*

**Highways Maintenance**

The main determinant of the existing Highways Maintenance Relative Needs Formulae is a basic amount for the size of the road network, including the weighted to reflect the lengths of principal roads and roads in built-up areas. Cost adjustments are made to reflect usage, the need for winter maintenance and area costs.

The usage top-up currently contains the daytime population per km indicator. This indicator is calculated using commuter and day visitor data. There is no reliable data on the number of visitors to an authority from another authority. Instead the current dataset is determined from a model and constructed using a range of indirect other data sources mostly from 1991. The 2005 Formula Review looked at updating the data sources in the model and the 2007 Formula Review proposed a replacement indicator altogether. Neither option was widely accepted. CLG are therefore now proposing to remove the day visitors' element from the daytime population per km indicator entirely.

The second option looks at updating the spend data from an average over 2003/04 to 2005/06 to an average over 2006/07 to 2008/09. This option also includes the effect of HM1.

**Option HM1 – WCC loses £129,000**

*Remove the day visitors' element from the daytime population per km indicator.*

**Option HM2 – WCC loses £269,000**

*Use HM1 and update the average spend dataset from a 2003/04 to 2005/06 average to a 2006/07 to 2008/09 average.*

**Environmental, Protective and Cultural Services**

The main determinant of the existing Environmental, Protective and Cultural Services (EPCS) Relative Needs Formulae is a basic amount per head of population with top-ups for population density, commuters, day visitors' deprivation and area costs.

The day visitors' indicator, mentioned under the Highways Maintenance section, also features in the EPCS formulae. In this block CLG propose replacing the day visitors' indicator with an indicator of the number of foreign visitor nights.

Option EPCS1 – WCC loses £1,478,000

*Replace day visitors with foreign visitor nights.*

The Flood Defence and Coast Protection sub-blocks currently include a spend indicator based on data from local authority returns. Improvements in evidence of flood and coastal erosion risk, namely via Geographical Information Systems (GIS), makes a distribution formula based on need more realistic.

In the Flood Defence sub-block, CLG propose replacing the expenditure indicator with GIS length of ordinary watercourse not covered by an Internal Drainage Board (IDB). IDB expenditure would continue to be funded based on the IDB levy expenditure because although local authorities are party to the decision making process as members of IDBs, the IDB will base its decisions on the needs of the whole area of 'special drainage need' which includes flood defence and land drainage activity.

Similarly, in the Coast Protection sub-block swap the expenditure based data for three GIS-based indicators: weighted properties at risk, length of erodible coastline and length of defended erodible coastline.

Option EPCS2 – WCC loses £73,000

*Remove own spending indicator from Flood Defence sub-block formula and introduce the GIS based Non-IDB Ordinary Watercourse Length indicator.*

Option EPCS3 – WCC gains £20,000

*Remove own spending indicator from Coast Protection sub-block formula and introduce three GIS-based indicators*

### **Area Cost Adjustment**

The Area Cost Adjustment (ACA) is an element of all the relative needs formulae. Its purpose is to reflect the particular variations in the cost of services around the country. The Area Cost Adjustment (ACA) has two components; the Rates Cost Adjustment (RCA) and the Labour Cost Adjustment (LCA). They reflect varying service delivery costs across the country due to business rates on council premises and pay, respectively. There are no proposals to amend the RCA.

The LCA is calculated using local wage information from the Annual Survey of Hours and Earnings (ASHE). The weight given to the LCA in each service area differs depending on the proportion of total costs in each service that are labour costs. Until now judgement has been employed to determine the proportion of labour costs for contracted out services provided by third parties as there was no reliable source of evidence. The option proposes estimating the labour share of third party contractors using company account estimates of the labour share in the various service groups have been used.

Option ACA1 – WCC gains £1,482,000

*Update the LCA weights in the ACA*

### **Taking Account of Relative Needs and Resources & the Scaling Factor for the Central Allocation Block**

The Relative Need and Relative Resource blocks allocate funding according to authorities' need and resources above the threshold; where the threshold is the authority with the lowest relative need and relative resource. The amounts below the thresholds are funded via the Central Allocation block. Formula Grant is calculated via these three blocks but the weighting given to each block and therefore the amount distributed via each block is judgmentally set.



As the three blocks must add up to the amount of CLG Formula Grant provided by HM Treasury, Ministers can only set the levels of two out of three of the blocks.

A change in the Central Allocation scaling factor, away from one, means that the amount below the threshold will have a different level of importance to the amount above the threshold, which could distort the distribution of grant. If the scaling factor for the Central Allocation is to be set as close to one as possible then this means that Ministers can specify the size of either the Relative Needs Amount or the Relative Resource Amount, but not both.

As in previous Formula Reviews, the Government principles for performing equalisation have not been published.

#### Option CAS1 – WCC gains £545,000

*Keep the relative needs amount the same (73% proportion), change the proportion allocated via the Relative Resource block from -26.6% to -25.5% and therefore the proportion allocated via the Central Allocation block from 53.6% to 52.5%*

#### Option CAS2 – WCC loses £1,480,000

*Keep the relative resource amount the same (-26.6% proportion), change the proportion allocated via the Relative Need block from 73.0% to 74.6% and therefore the proportion allocated via the Central Allocation block from 53.6% to 52.0%.*

### **Floor Damping Levels**

Damping provides a minimum of “floor” percentage annual increase in Formula Grant. It is intended to smooth the distributional turbulence caused by formula and data changes.

Local Authorities are divided into four damping groups Education/PSS, Police, Fire & Rescue and Shire district authorities. Each group is self-funding whereby, those authorities who receive a below the floor increase through the formula have their Formula Grant increased to the floor level. This is paid for by those authorities that receive an above the floor increase; their increase above the floor is scaled down by a multiplier.

If the floor is high, authorities below the floor level will receive a greater increase in funding (and more authorities will be below the floor), consequently those authorities above the floor will need to be scaled back more. For the same average grant change for the floor group the only way of making the scaling factor higher is to lower the level of the floor. If the floor is set further away from the average more of the formula change will come through for authorities above the floor.

CLG confirm in the consultation document that “over the next Spending Review period it will still be possible to set a range of floor levels, including.....negative floors”.

### **Transfers and Adjustments**

A transfer occurs when money either moves in to or moves out of the settlement due to changes in function or funding. Changes in funding typically involve transfers into formula grant of funds previously distributed by specific grant or vice versa. Changes in function typically involve local authorities taking on extra duties or responsibilities or the transfer of these away from local government to another body.

#### Police Rule2 Grants

Five former police specific grants currently make up Rule2 Grants, removing the ring-fence condition. This option looks at transferring all or just three of these grants, namely Forensic Grant, Special Priority Payments Grant and Integrated Police Learning & Development

Programme Grant into Formula Grant. The police formula remains unchanged but the baseline has been adjusted.

Option POL3 – WCC loses £4,000

*Distributes 2010/11 police funding plus amended 2010/11 Forensic Grant, Special Priority Payments Grant and Integrated Police Learning & Development Programme Grant via the existing police RNF. The baseline is adjusted adding 2009/10 Forensic Grant, Special Priority Payments Grant and Integrated Police Learning & Development Programme Grant totals*

Option POL4 – WCC loses £8,000

*Distributes 2010/11 police funding, plus all amended 2010/11 Rule2 Grants, via the existing police RNF. The baseline is adjusted adding the equivalent 2009/10 totals.*

Concessionary Fares

From 1 April 2011 responsibility for concessionary fares in two-tier areas is moving from district to county authorities. It will therefore be transferred from the lower-tier EPCS sub-block to the upper-tier EPCS sub-block. CLG are treating the change as two separate transfers; a transfer out of Formula Grant for the lower-tier formula and a transfer into Formula Grant for the upper-tier formula. The amount to be transferred is to be decided as part of the Spending Review but for illustrative purposes CLG has exemplified £813.388m, the level of expenditure in 2008/09.

Concessionary Fares Transfer 1: Removing Concessionary Travel from the Lower-Tier EPCS RNF

There are two aspects to this change, each of which has two options:

- **Formula Changes** - The first option would distribute the reduced control total using the existing formula. The second option is to reverse the re-weighting that happened when the 2005 Budget announced a free concessionary fares scheme for people aged 60 and over and disabled people.
- **Baseline Changes** - The two options for adjusting the lower-tier EPCS baseline are based on authorities' expenditure on concessionary fares or pro-rata to the change to the lower-tier EPCS RNF.

Combinations of these approaches lead to four consultation options. There are side-effects to each of these options because of the way CLG determine how much grant should go to each of the four floor damping groups by setting the shares of taxbase such that the percentage increase in Formula Grant is broadly proportional to the percentage increase in RNFs for the four groups on a like-for-like basis.

Option CONCF1 – WCC gains £399,000

*Distribute the reduced lower-tier control total using the existing formula and adjust the base position by 2008/09 expenditure. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.9% and the shire districts floor has reduced from 0.5% to -3.3%.*

Option CONCF2 – WCC gains £592,000

*Distribute the reduced lower-tier control total using the existing formula and adjust the base position pro-rata to the lower-tier EPCS formula. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.9% and the shire districts floor has remained unchanged.*

Option CONCF3 – WCC gains £226,000

*Distribute the reduced lower-tier control total using the 2005/06 lower-tier EPCS formula and adjust the base position by 2008/09 expenditure. To give broadly the same scaling factors*

*the Education/PSS floor has increased from 1.5% to 2.1% and the shire districts floor has reduced from 0.5% to -4.0%.*

*Option CONCF4 – WCC gains £381,000*

*Distribute the reduced lower-tier control total using the 2005/06 lower-tier EPCS formula and adjust the base position pro-rata to the 2006/07 adjustment to the lower-tier EPCS formula. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.7% and the shire districts floor has reduced from 0.5% to -0.9%.*

*Concessionary Fares Transfer 2: Adding Concessionary Travel to the Upper-Tier EPCS RNF*

There are two aspects to this change, each of which has two options

- *Formula Changes* - The three options look at updating the formula by performing regressions against past expenditure, estimated concessionary travel trip data and a measure of bus service density.
- *Baseline Changes* - There are two elements of this transfer, the first reflects the transfer of spend by districts and boroughs and the second the transfer of Concessionary Fares Special Grant into Formula Grant. For the transfer from Districts, CLG believe that the adjustment to the upper-tier base position should simply be the same as the sum of the transfer from the lower-tier authorities. For the transfer from special grant there are two options; one, adjusting the base by the allocation of the special grant and two adjusting the base pro-rata to the new concessionary fares formula.

Combinations of these approaches lead to six consultation options. These are all exemplified with the lower-tier Option CONCF3 “due to CLG resource constraints”.

*Option CONCF5 – WCC gains £381,000*

*Distribute the increased upper-tier control total using the first formula derived from regressions against expenditure and adjusting the base position for the Special Grant transfer by 2009/10 Special Grant allocations. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.8% and the shire districts floor has reduced from 0.5% to -3.5%.*

*Option CONCF6 – WCC gains £454,000*

*Distribute the increased upper-tier control total using the first formula derived from regressions against expenditure and adjusting the base position for the Special Grant transfer pro-rata to the new concessionary travel formula. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.8% and the shire districts floor has reduced from 0.5% to -3.5%.*

*Option CONCF7 – WCC loses £168,000*

*Distribute the increased upper-tier control total using the second formula derived from regressions against expenditure and adjusting the base position for the Special Grant transfer by 2009/10 Special Grant allocations. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.8% and the shire districts floor has reduced from 0.5% to -3.4%.*

*Option CONCF8 – WCC loses £147,000*

*Distribute the increased upper-tier control total using the second formula derived from regressions against expenditure and adjusting the base position for the Special Grant transfer pro-rata to the new concessionary travel formula. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.8% and the shire districts floor has reduced from 0.5% to -3.4%.*

#### Option CONCF9 – WCC loses £161,000

*Distribute the increased upper-tier control total using the formula derived from regressions against estimated concessionary trip data and adjusting the base position for the Special Grant transfer by 2009/10 Special Grant allocations. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 2.0% and the shire districts floor has reduced from 0.5% to -3.5%.*

#### Option CONCF10 – WCC loses £471,000

*Distribute the increased upper-tier control total using the formula derived from regressions against estimated concessionary trip data and adjusting the base position for the Special Grant transfer pro-rata to the new concessionary travel formula. To give broadly the same scaling factors the Education/PSS floor has increased from 1.5% to 1.9% and the shire districts floor has reduced from 0.5% to -3.5%.*

#### Unadopted Drains

Under the Flood and Water Management Act, it is proposed to transfer responsibility for “private sewers” from local authorities to sewerage and water companies. If a transfer from Formula Grant occurs, CLG propose to remove funding from the lower-tier EPCS sub-block. The amount is likely to be decided as part of the Spending Review. The formula would not be altered and the baseline would be adjusted pro-rata to the number of properties in each authority.

#### **Data Changes**

Data changes are when CLG proposes to use an alternative data source to measure a particular aspect of local authorities’ relative need to spend.

#### Incapacity Benefit and severe Disablement Allowance

The current EPCS formula includes the number of people receiving Incapacity Benefit and Severe Disablement Allowance (IBSDA). The indicator includes data averaged over three years. Recent changes in the benefit system have seen the introduction of the Employment and Support Allowance (ESA). ESA has been introduced to help people with an illness or disability move back into work, replacing Incapacity Benefit and Income Support. As a result, DWP have recommended the inclusion of ESA data with the Incapacity Benefit and Severe Disablement Allowance data to create the IBSDA indicator. CLG also propose using available quarterly data, rather than the annual data, to form the three year average.

#### Option DATA1 – WCC loses £1,000

*Compile the three-year average IBSDA indicator using quarterly data rather than annual data over three years.*

#### Children of Income Support Claimants

Children of income support/income based jobseekers allowance claimants is currently used in the three Children’s Services sub-blocks; Youth and Community, Local Authority Central Education Functions and the Children’s Social Care. It is also used within the Fire Risk Index. The current indicator uses data from 2000 to 2002 as the data is no longer collected for it to be updated.

Since May 2007, HM Revenue and Customs have collected an alternative data set - children of out-of-work families receiving Child Tax-Credit. The proposal is to replace the existing data with this new data source, which is both more recent and can be updated in the future.

#### Option DATA2 – WCC gains £181,000

*Use of the proportion of people aged 18 and under who are in out-of-work families receiving Child Tax Credit as a direct replacement of the current children of IS/(IB)JSA claimants.*

### Student Exemptions and the Council Taxbase

A local authority's taxbase for Formula Grant purposes is a measure of its potential capacity to raise council tax defined as the number of Band D equivalent properties in a local authority's area. This calculation includes an adjustment for student exemptions using data collected in October. CLG propose changing this to use data on the number of exemptions in May as they believe it will better reflect the number of student exempt properties because October is too early into the academic year, as students may not have registered for council tax exemption by this date. There is a risk that using the May figure will overstate the level of student exemptions, as some properties may not be exempt from council tax for the entire year.

#### Option DATA3 – WCC gains £151,000

*Calculate the adjustment to the taxbase for student exempt properties using May data rather than October data.*

### Secondary School Pupils in Low Achieving Ethnic Groups

The secondary school pupils in low achieving ethnic groups indicator is used in the Youth and Community sub-block within Children's Services. The Department for Education have updated the definition of low achieving ethnic groups based on analysis of pupil attainment and progress data.

This updated definition differs from that used in the current formula by the addition of pupils who are in the Any 'Other White' Background group and the exclusion of the pupils who are in the Bangladeshi and Any 'Other Ethnic' background groups.

<b>Secondary School Pupils in Low Achieving Ethnic Groups Indicator</b>		
<b>Low Achieving Ethnic Groups</b>	<b>Current</b>	<b>Proposed</b>
A	Pakistani	Pakistani
B	Bangladeshi	Black African
C	Black African	Black Caribbean
D	Black Caribbean	Any Other Black Background
E	Any 'Other Black' Background	White and Black African
F	White and Black African	White and Black Caribbean
G	White and Black Caribbean	Traveller of Irish Heritage
H	Traveller of Irish Heritage	Any Other White Background
I	Any 'Other ethnic' background	Gypsy / Roma
J	Gypsy / Roma	

#### Option DATA4 – WCC gains £48,000

*Calculate the secondary school pupils in low achieving ethnic groups' indicator using the updated classification from pupil attainment and progress data.*

## Local Government Finance Formula Grant Distribution - Response to the Consultation Paper from Warwickshire County Council

05 October 2010

Andrew Lock  
Formula Grant Review Team  
Communities and Local Government  
Zone 5/J2  
Eland House  
Bressenden Place  
London SW1E 5DU

Dear Mr Lock,

### Local Government Finance: Formula Grant Distribution Consultation Paper – 2010

Warwickshire County Council would like to thank the Department for Communities and Local Government for the opportunity to respond to the above consultation. We have addressed the questions in the order that they appear in the consultation but would also like to separately highlight our views on the Four-Block Model and the forthcoming local government finance review.

In view of the likelihood of reduced resources it is more important than ever that funding allocations are made using a robust distribution methodology. We, along with almost all of local government, have consistently opposed the continued use of the Formula Grant distribution mechanism, the Four Block Model, as it is not fit for purpose. Elements of the model based on judgement can effectively wipe out the distribution of funding indicated by evidence-based formulae. This is discussed in greater details under the specific consultation questions. We look forward to a more comprehensive review of grant distribution in the forthcoming local government finance review, which will take place in 2011.

#### Chapter Three: Adults' Personal Social Services

*Question One: Do you agree that we should update the Low Income Adjustment (OPPSS1)?*

We believe that up-to-date data is a fundamental element of the distribution formula and therefore support Option OPPSS1.

#### Chapter Four: Police

*Question Two: Do you agree the activity analysis should be updated and a three year average used instead of the current two year average (POL1)?*

We believe that up-to-date data is a fundamental element of the distribution formula and therefore support Option POL1

However, we continue to be concerned over the impact formula changes have on authorities that do not hold responsibility in that area. Options POL1 through to POL4 illustrate this concern where the County Council, without police responsibility, would lose on all the options.

Question Three: Do you agree that the log of weighted bars per 100 hectares indicator should be used in place of log of bars per 100 hectares indicator (POL2)?

We believe that the log of weighted bars per 100 hectares indicator is a more accurate method of aggregating data on the level of crime recorded at community safety partnership level to force level and therefore support POL2.

Question Four: Do you agree that the three elements of Additional Rule 2 Grant mentioned in Chapter 4 'Police' paragraph 19 should be rolled into Principal Formula Police Grant (Main Grant) and therefore distributed as through the Police Allocation Formula (POL3)?

We believe that local authorities should have the freedom to allocate resources in accordance with local needs and priorities. Therefore, in principle, we support POL3.

Question Five: Do you agree with that the whole of the Rule 2 grant should be rolled into Principal Formula Police Grant (Main Grant) and therefore distributed as through the Police Allocation Formula (POL4)?

We believe that local authorities should have the freedom to allocate resources in accordance with local needs and priorities. Therefore, in principle, we support POL4.

## **Chapter Five: Fire & Rescue**

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

It is in the interests of formula distribution to have the most up-to-date datasets driving the formulae and we support CLGs endeavours to update the formulae at opportunities and therefore support Option FIR1.

Question Seven: Should annual cashable efficiency savings be added to the updated expenditure data used to determine the coefficients (FIR2)?

We understand the purpose of the option for adding annual cashable efficiency savings to expenditure base data would be to overcome the perception that authorities are in some way penalised for making efficiency savings. However, some areas may have found it easier to make efficiency savings because they started from a less efficient base. They may have simply moved towards being as efficient as other areas, therefore directing additional funding to them would only subsidise their less efficient starting point.

We believe including efficiency savings data would introduce an inconsistency with other blocks, which we could not support. We also have reservations that Annual Efficiency Statements are a reliable data source since there is little audit of them, resulting in efficiency savings being identified, measured and recorded differently across local authorities. Furthermore, with the Government's drive to reduce the reporting burden on Local Government, there may be an issue relating to the future availability of data from Annual Efficiency Statements.

In relation to the revised formula, we have reservations regarding the increased weight of 'length of coastline' since there is no reason to believe that all areas with more coastline are more efficient and therefore require additional funding.

For all the reasons outlined we are strongly opposed to option FIR2.

Question Eight: Would you prefer either FIR3 or FIR4 as an alternative to the current risk index?

We support updating the Fire Risk Index and recognise the value in using readily available, and therefore updatable, factors. However, administrative convenience should not override the role of the formula to measure need, which under these options attributes the number of fire incidents to a series of deprivation indicators. In particular we believe factors that drive the level of traffic incidents attended by the Fire and Rescue Services should also be included as part of the analysis.

## **Chapter 6: Highways Maintenance**

*Question Nine: Do you agree that the daytime visitors' component of daytime population per km should be removed? (HM1)*

Due to being unable to agree a suitable replacement in previous Formula Reviews for the Daytime Visitors component of Daytime Population, the component is over 20 years old. We feel that it would be sensible to remove this element, which would only undermine the efforts of including timely and robust datasets.

*Question Ten: Do you agree that the expenditure data used to determine the coefficients should be updated? (HM2)*

We believe that up-to-date data is a fundamental element of the distribution formula and therefore support Option HM2.

## **Chapter Seven: Environmental, Protective and Cultural Services**

*Question Eleven: Do you agree that foreign visitor nights is a suitable replacement for day visitors in the district-level and county-level EPCS RNFs (EPCS1)?*

We do not support replacing the daytime visitors' indicator with foreign visitor nights. It does not constitute a suitable replacement as daytime visitors and foreign visitor nights are measuring different cost drivers, for different populations of visitors. It assumes that all foreign visitors only drive additional costs for the authority where they stay overnight, rather than also including where they travel to during the day. It would result in massive distributional swings during what is expected to be a very tight settlement.

*Question Twelve: Do you agree that the new GIS-based flood defence formula should be used (EPCS2)?*

*Question Thirteen: Do you agree that the new GIS-based coast protection formula should be used (EPCS3)?*

We recognise and support the Government's efforts to move away from indicators of expenditure in the formula. However, the work on the Flood Defence sub-block appears to have been developed in isolation of other service formulae. Whilst successful replacements may not necessarily be available for other service formula, this does lend weight to our concerns raised in our response to Consultation Question 7 that there is a conflict of principle in the treatment of expenditure data in different sub-blocks.

Despite these reservations overall we give tentative support to EPCS2 and EPCS3.

## **Chapter Eight: Area Cost Adjustment**

*Question Fourteen: Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA 1)?*

We feel that this option supports the key principle, supported throughout this response, that where possible the most up-to-date data should be employed.



## **Chapter Ten: Scaling Factor**

*Question Fifteen: Do you think that the scaling factor for the central allocation should be close to one, so that equal importance is attached to the amounts above and below the minima?*

*Question Sixteen: If so, would you prefer Ministers to be able to set judgemental weights for the Relative Needs Amount, as in option CAS1, or the Relative Resource Amount, as in option CAS2?*

The Four-Block Model is able to adjust the emphasis put on authorities' ability to raise council tax through equalisation of the need and resource blocks. Whilst we support equalisation in principle, we have continually stressed the importance of publishing the agreed principles behind any need or resource equalisation exercise. Without such information how can we measure the success of the exercise if we do not know what we were equalising against or for?

Once again, we reiterate our calls for Local and Central Government to come together to hold a wide-ranging debate on the principles for further need and resource equalisation.

## **Chapter Eleven: Floor Damping Levels**

*Question Seventeen: Over the next Spending Review period do you think that the floor level should be set close to the average change or such that it allows some formula change to come through for authorities above the floor?*

We believe that the floor level should be set such that it allows some formula change to come through for authorities above the floor.

*Additional Question: Do you think we should treat the City of London as two notional authorities for floor damping purposes (Option DAMP1)?*

This additional question is the result of a partial plea from a single authority to suit their local circumstances, whilst they would benefit from the police block's relatively high floor level. We believe that any such changes should be made based on statistical and formulaic arguments and not according to the level of elements set at Ministers' discretion. Furthermore, whilst such a change would be similar to the treatment of the GLA, the separation of the GLA has a statutory basis and members are mindful that similar arguments could apply to Education/PSS authorities who also have fire responsibilities, such as Warwickshire.

## **Chapter Twelve: Transfers and Adjustments**

*Question Eighteen: Which of the four options for removing concessionary travel from lower-tier authorities' do you prefer (CONCF1, CONCF2, CONCF3, CONCF4)?*

*Question Nineteen: Which of the six options for rolling in concessionary travel to upper-tier authorities' do you prefer (CONCF5, CONCF6, CONCF7, CONCF8, CONCF9, CONCF10)?*

The 2007 consultation on the Formula Grant distribution methodology also contained options for distributing concessionary fares funding via Formula Grant. Our response to this consultation confirmed that we did not support the transfer of any funding, either existing specific/special grants or funding for 'new burdens', into the current distribution mechanism. It was our view that, in such a situation as this, new funding be distributed via un-ringfenced specific grant until such a time as the distribution model could direct funding in a satisfactory manner.

From the outset the Government confirmed that the 2010 review of the formula would update the existing system. This has left no opportunity, in the short-term, to address the fundamental flaws in the Four Block Model. As a result exemplifications for the transfer of

lower-tier concessionary travel funding (both existing Formula Grant and Special Grant monies) again illustrate how massively flawed the Four-Block Model is.

Government has dictated that the relative block sizes are to remain unchanged, unless a specific exercise of equalisation is to be carried out. This only leaves the Shares of Tax Base as the remaining judgementally controlled element to direct formula grant allocations, now that the RNF formulae are no longer able to. It is therefore unsurprising that it is not possible to adequately direct funding between hundreds of local authorities simply by adjusting 4 figures.

Since no measures have addressed the problems in the Four Block Model, the concerns of the 2007 review remain. Furthermore the Government's continued use of the flawed Four-Block Model serves to undermine the time and effort spent by both Central and Local Government investigating, researching and consulting on new formulae. We are also concerned that the consultation on Formula Grant distribution notes CLG will be developing further proposals for distributing concessionary fares funding. Since the results of this work were not ready in time for the publication of the consultation document, we will not have the opportunity to comment on them. It is therefore of little consequence which option local government select, as funding is highly unlikely to follow the same pattern of distribution.

We feel that it would be most sensible to remove concessionary fares Formula Grant from lower-tier EPCS via option CONCF2. In light of the Ministers recent announcement that a full review of local government finance will take place in 2011, we believe it would be opportune to delay adding these monies to upper-tier EPCS until Central and Local Government can agree on a more practicable, less opposed and more transparent method of Formula Grant distribution. In the meantime both funding streams should be directed to upper-tier authorities via unringfenced Special Grant.

Despite all our significant concerns detailed above, of the options presented we would prefer CONCF6, using the new concessionary travel formula. However, we reserve our position to change our support for any option once CLG have completed their work as we will need to consider the further options that may be available at this point.

*Question Twenty: Should concessionary travel have its own sub-block?*

Whilst we do not feel there is an overriding case for a separate Concessionary Fares block, we would like to take this opportunity to reiterate our support for the Society of County Treasurers long-running campaign for the establishment of a separate Waste Management block that will properly recognise the growing and significant waste disposal costs for members.

*Question Twenty-One: Do you agree with the methodology for adjusting the base position for unadopted drains?*

No comment.

### **Chapter Thirteen: The Incapacity Benefit and Severe Disablement Allowance Indicator**

*Question Twenty-Two: Do you agree that the incapacity benefit and severe disablement allowance indicators should use quarterly data rather (DATA1)?*

*We support the use of quarterly data in incapacity benefit and severe disablement allowance indicators since this should help to overcome any distributional turbulence caused by fluctuations in annual datasets.*

#### **Chapter Fourteen: Replacing the Children's Income Support Benefit Indicator**

*Question Twenty-Three: Do you agree that children in out-of-work families receiving Child Tax Credit (CTC) should replace the current children of IS/(IB)JSA claimants (DATA2)?*

We believe the Children in Out-of-Work Families Receiving Child Tax Credit (CTC) indicator would be a sensible replacement for the Children's Income Support Benefit indicator. Using a three-year average would also smooth the distributional turbulence caused by annual anomalies.

#### **Chapter Fifteen: Student Exemptions and the Council Tax Base**

*Question Twenty-Four: Would you prefer that May data only is used for the student exemptions adjustment in the taxbase projections (DATA3)?*

We do not support Option DATA3, which would use May data to calculate the level of student exemptions in the Taxbase for RSG Purposes. We acknowledge that the existing October data may not capture the final level of exempt properties since it is so early in the academic year when students may not have yet registered. However, conversely, simply using May data would lead to providing a snapshot of exempt properties that have not been exempt for the full year. We continue to support an option in the 2007 Formula Review that proposed employing an average of the two datasets.

#### **Chapter Sixteen: Updating Data on Low Achieving Ethnic Groups**

*Question Twenty-Five: Do you agree that the new definition of secondary school pupils in low achieving ethnic groups should be used (DATA4)?*

We support Option DATA4. It would therefore provide a timely update and improve the formula's relevance to current service need.