

# Formula Grant Distribution Consultation Paper

## Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

### 1 Purpose of Report

The report seeks the approval of the Committee to making responses to the Government's Consultation Paper on various options for the distribution of grant over the next three years.

### 2 Recommendations

The Committee is recommended to respond as set out in paragraphs 4 and 5 of the report.

### 3 Background

On 17 July 2007, the Government issued a consultation paper setting out options for changes to grant distribution formulae for 2008/09. The particular questions posed are attached as an appendix. The deadline for responses is 10 October 2007.

The Government "believes that the options in this paper could be used to update the Formula Grant Distribution System. However the options here may be further refined following consultation. Respondents may also propose new options".

### 4 Options relevant to the Authority

#### Question 1

**Do you agree with the fallback mechanisms described for calculating settlements in restructured areas during the 3 year settlement?**

The proposals would base grant on the sum of grants in the area, would therefore not reduce grant in anticipation of savings, and would have no effect



on grant received by non-restructured authorities. The fall-back option would therefore be supported on the basis that there would be no impact on the Authority, and the County Council (and partner) would not have to manage any grant reduction as a result of restructuring.

#### **Question 10**

**Do you agree that the expenditure data used to determine the coefficients should be updated (FIRI)?**

The coefficients in the formula are determined by applying regression analysis to “best-fit” past expenditure patterns of fire authorities. Intuitively therefore, the more recent the expenditure data, the more appropriate that analysis must be. It should also work to support authorities who have been successful in modernising, as historic high-spending is not “rewarded”. This appears to be supported by the exemplification which demonstrates, albeit subject to major assumptions, that this authority would gain up to £200,000. The option would therefore be supported as being more appropriate and relevant to current spending needs.

#### **Questions 15 – 19**

**Various – concerning Area Cost Adjustments**

Options to change the Area Cost Adjustments should be self contained and not affect other authorities’ grant entitlements.

#### **Question 20**

**Do you think there should be a further judgemental change in the extent to which the system takes account of needs or resources?**

A judgement has to be made as to what proportion of grant addresses the relative need of authorities to spend and what proportion addresses relative ability to raise Council Tax. The paper accepts that setting the levels is ultimately a matter of judgement and the current levels are comparable with the former Formula Spending Share (FSS) system.

The Authority opposes any further judgmental change. There seems little point in changing the system based on merely an alternative judgement, when it would be very difficult to defend the resulting changes to grant entitlement. This is underlined for this Authority by the exemplifications showing potential losses of grant of up to £475,000 before damping. The proposal to change should therefore be rejected.

#### **Question 22**

**Do you support the approach of reducing the levels of grant floors over the three years of the settlement?**

No. Ideally grant flooring should be removed as quickly as possible in order to reflect the agreed distribution 100%.



### **Question 23**

#### **Do you have other suggestions on the way in which the grant floors system should be operated?**

Ideally the grant floors system should be removed in year one (benefit to Shropshire and Wrekin Fire Authority £400,000 as per exemplification) or failing this, wholly by year two.

## **5 Other Issues**

The Authority would also like to make the following comments:-

- i that the decision not to include an element in the Fire Formula for sparsity should be reviewed;
- ii the monies removed from the grant distribution to repay modernisation funding should be added back to the grant being distributed from 2008/09 onwards.

## **6 Summary**

The Government's consultation proposals are, except for concerns over the balance between needs and resources (question 20) generally favourable. It is not possible to put a value on potential total change at this stage, although the exemplifications indicate a possible £600,000 gain (at best) offset by a possible £475,000 loss (at worst).

The key issue will be the amount of grant actually to be distributed, which we will not know until late November at the earliest.

There may also be a redistributive effect from up-dated data.

## **7 Financial Implications**

There are no financial implications other than those set out in the report.

## **8 Legal Comment**

There are no legal implications arising directly from this report.

## **9 Equality Impact Assessment**

Officers have considered the Service's Brigade Order on Equality Impact Assessments and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not therefore been completed.

## **10 Appendix**

List of Questions



## 11 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	*
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*



# Chapter 16

## List of Questions

### **Chapter 2 – Formula Grant and Local Government Restructuring in a Three-Year Settlement**

*Question 1:* Do you agree with the fallback mechanism described for calculating settlements in restructured areas during the 3 year settlement?

### **Chapter 3 – Children’s and Adults’ Personal Social Services**

*Question 2:* Should the specific formula floor continue for Children’s PSS?

*Question 3:* If yes, how quickly should the formula floor be phased out?

*Question 4:* Should the specific formula floor continue for Younger Adults’ PSS?

*Question 5:* If yes, how quickly should the formula floor be phased out?

*Question 6:* Which option do you prefer – SSE1 or SSE2?

### **Chapter 4 - Police**

*Question 7:* Do you agree the resource base should be updated (POL1)?

*Question 8:* Do you agree that the Additional Rule 2 grants should be rolled into principal formula Police Grant (POL2)?

*Question 9:* Do you also agree that the Crime Fighting Fund should be rolled into principal formula Police Grant (POL3)?

### **Chapter 5 – Fire & Rescue**

*Question 10:* Do you agree that the expenditure data used to determine the coefficients should be updated (FIR1)?

### **Chapter 6 – Highways Maintenance**

*Question 11:* Do you agree that the expenditure data used to determine the coefficients should be updated (HM1)?

### **Chapter 7 – Environmental, Protective and Cultural Services**

*Question 12:* If the money is to be added to Formula Grant, which option for distribution do you prefer – EPCS1, EPCS2 or EPCS3?

*Question 13:* Do you have any other suggestions for distributing the funding via Formula Grant? If so, please specify.

## **Chapter 8 – Capital Finance**

*Question 14:* Do you agree with the proposal to freeze the shares of SCE(R) for years prior to 2007/08 to the level used in the 2007/08 Settlement; and that in future, the shares of SCE(R) will not be recalculated to the current year shares in every Settlement?

## **Chapter 9 – Area Cost Adjustment**

*Question 15:* Do you agree with the proposal to update the weights given to the rates cost adjustment (ACA1)?

*Question 16:* Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA2)?

*Question 17:* Do you agree that we should revise the geography of the ACA?

*Question 18:* Which option for revising the geography of the ACA do you prefer – ACA3 or ACA4?

*Question 19:* Do you have other proposals for revising the geography of the ACA? If so, please specify.

## **Chapter 10 – Taking Account of Relative Needs and Resources**

*Question 20:* Do you think there should be a further judgemental change in the extent to which the system takes account of needs or resource?

*Question 21:* If so, what change would you suggest?

## **Chapter 11 – Tapering Grant Floors Down**

*Question 22:* Do you support the approach of reducing the levels of grant floors over the 3 years of the settlement?

*Question 23:* Do you have other suggestions on the way in which the grant floors system should be operated?

## **Chapter 12 – 100% Quarterly Scans of Benefits Data**

*Question 24:* Do you agree that the DLA indicator is based on a three year average using quarterly rather than annual data? (Option DATA1)

*Question 25:* Do you agree that we use quarterly data on income support claimants and claimants of pension credit? (Option DATA2)

## **Chapter 13 – Attractiveness of an Area to Day Visitors**

*Question 26:* Do you agree that we should replace the day visitors indicator with a population-weighted indicator that takes into account the attractiveness to an area of day visitors? (Option DATA3)

*Question 27:* Do you agree that we should remove the day visitors indicator from the Highways Maintenance formula? (Option DATA4)

#### **Chapter 14 – Student Exemptions and the Council Tax Base**

*Question 28:* Do you agree that we use student exemption numbers from 31 May 2007 to adjust the starting position of the taxbase projections? (Option DATA5)

*Question 29:* Do you agree that we use the average of student exemption numbers from 31 May and mid- September 2007 to adjust the starting position of the taxbase projections? (Option DATA6)