

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 grant distribution changes that could be introduced from the 2011/12 settlement onwards.

Recommendations

The Committee is recommended to:

- a) respond as set out in paragraph 5 of the report pressing for receiving the remaining grant lost in the previous settlement to the flooring mechanism (£366,000);
- b) requesting that no changes to the formula should be made in 2011/12 given the other changes taking place in local government finances;
- c) respond along the lines set out in paragraph 4 if the government does consider the changes set out in the consultation paper; and
- d) note the potential variations and uncertainty inherent in the grant for next year and the implications for service and budget planning.

2 Background

On 28 July 2010, the Government issued a consultation paper setting out options for changes to grant distribution formulae for 2011/12 onwards. The complete list of questions posed is attached at Appendix A to the report. The deadline for responses is 6 October 2010.

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 and the components of the new system may not necessarily be drawn from the list contained in the consultation document. Respondents may also make alternative proposals.

This report concentrates on those questions that appear to be most relevant to the Fire Authority, based on the exemplified impact that the changes might make to grant.

The consultation document attempts to illustrate the impact of the various options by rerunning the current year's entitlement as if they had been implemented, and expressing the change in percentage and cash terms. This can be extremely misleading for a number of reasons, notably:-

- a) the total impact of a number of changes is not the sum of the parts;
- b) floors can radically affect change;
- c) the total being distributed next year will be different, almost certainly less in real terms;
- d) updated data will be introduced which will in itself reallocate grant between Authorities.

The questions are therefore addressed in the report largely on the basis of first principles, although views will unavoidably be affected by the potential financial impacts demonstrated in the consultation paper.

3 Options relevant to the Authority

Fire and Rescue Formula

Question 6

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

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 demonstrated by the exemplification which shows, albeit subject to major assumptions, that this authority would gain some 3.4% or £294,000.

The option should therefore be supported as being more appropriate and relevant to current spending needs.

Question 7

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

This is a variation on FIR1 which involves adding back into the expenditure on which regression is based, the average efficiencies achieved over the period 2006/09. The idea is that some authorities would otherwise perceive that they had been penalised for making efficiency savings. Grossing expenditure back up would offset grant loss. This Authority would see its exemplified gain reduced to £241,000 or 2.8%, presumably because the efficiencies we had been able to achieve over the period were proportionately less than those in other Authorities who had either been slower to achieve efficiencies in the past and/ or had more scope to deliver them. This option can only be understood if it is believed that Authorities with lower levels of efficiencies in the period could have achieved more. There is no evidence to support this. Furthermore the efficiency figures are produced by Authorities themselves and are therefore at odds with the prevailing rule that information should be independently sourced.

This option should therefore be opposed. .

Question 8

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

The risk index was developed to determine a group of indicators that had a relationship to the number of incidents that fire and rescue services attended. Options FIR3 and FIR4 update incident data and also introduce new or updated factors. The two alternatives are similar in many respects except that FIR 3 includes a sparsity factor. In addition FIR3 includes the proportion of people in certain types of “starting out” accommodation. Both options show significant reductions in exemplified grant, FIR3 £1,571,000 and FIR4 £285,000.

Both results are alarming for this Authority, and therefore should be opposed because of the consequences. Of the two options FIR3 would be totally unacceptable in all circumstances. Appendix B shows the detail of this option and the significant swings both plus and minus, that it generates.

Area Cost Adjustment

Questions 14

Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA1)?

Further work has been done to try and calculate the proportion of expenditure by each service which is affected by variable labour costs. The purpose is to increase grant for those Authorities in areas of the country where such costs are relatively high. Although no changes are proposed for the Fire Service there is an impact on Fire Authorities as a result of changes to highway

maintenance, social services, and environmental etc. services. This Authority is exemplified to gain £34,000.

In previous years the Authority has commented that options to change the Area Cost Adjustment should be self contained and not affect other authorities'/services' grant entitlements. We could continue to hold to this principle although this could theoretically lose grant in this instance

Scaling Factor

Question 15

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 threshold?

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. Grant is then distributed to Authorities to equalise different needs to spend (as determined by the distribution formula). This is the "Relative Needs Amount". Further grant is distributed to equalise tax base per head, the "Relative Resource Amount". There remains a significant amount of grant to distribute after relative needs and resources have been equalised. This is known as grant below the threshold. It is distributed on the basis of population through the "Central Allocation". In the last three year settlement the government specified the levels of the Relative Needs Amount and Relative Resources Amount which resulted in having to introduce a scaling factor of greater than 1 in order to distribute the entire remaining grant through the Central Allocation. It is argued that this distorts grant distribution and that a neutral scaling factor of 1 should be used.

This is a very technical point but change does have real consequences, and the Authority might argue that constant tinkering with the distribution mechanism for reasons that cannot easily be explained should be avoided.

Question 16

If so, would you prefer Ministers to set judgemental weights for the Relative Needs Amount, as in Option CAS1, or the Relative Resource Amount, as in Option CAS2?

If the answer to question 15 above is "no" then this question is not relevant. The exemplified consequence of Option CAS1 is a loss of grant of £17,000, and of CAS2 a loss of £69,000.

If the government decides to adjust for a scaling Factor of 1 then it is suggested that Option CAS1 is therefore preferable.

Floor Damping Levels

Question 17

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?

The cost of protecting Fire Authorities who would otherwise be below the floor is paid for by scaling back increases above the floor of the other Fire Authorities. The higher the scaling factor then the greater is the amount of the increase which will be received and the lower the floor must be to pay for these increases. Setting the scaling factor at the average change will minimise any change from the adjusted prior year's grants. The answer to this question depends on how convinced one is that there will be a distribution of grant to you. There is also the question of how this will interact with potential referenda on excessive council tax increases. Although principles triggering a referendum are proposed to be set for different types of Authority, there could be service consequences if funding changes occurred between Authorities in the same class.

A possible answer in this current period of uncertainty would be that floors should be calculated to minimise year on year grant changes.

Transfers and Adjustments

Question 18

Which of the four Options for removing concessionary travel from lower-tier authorities do you prefer? (CONCF1, CONCF2, CONCF3, CONCF4)

This is an apparently technical change to reflect the transfer of responsibility for this service between types of authority. The exemplification appears to show a consequence for fire authorities, with this authority potentially gaining £60,000 for options 1 and 2 and £35,000 for options 3 and 4. Of option 3 and 4, option 3 adjusts for expenditure, and option 4 by grant formula.

It is suggested that a response that changes apparently impacting on unrelated services and authorities should be avoided and therefore the option with the least such impact should be chosen.

Question 19

Which of the six Options for rolling in concessionary travel to upper tier authorities do you prefer? (CONCF5-10)

All these options appear to deliver a benefit the largest being of between £86,000 for options 9 and 10 and new options. A further six options have been produced since the initial consultation paper was issued of which options 15 and 16 offer about a £95,000 gain before damping.

It is suggested that these are preferred subject to the comment that such changes are difficult to explain.

Replacing the Children's Income Support Benefit Indicator

Question 23

Do you agree that children in out-of work families receiving Child Tax Credit should replace the current children of IS/(IB)JSA claimants? (DAT3)

This is another example of a change elsewhere (Youth and Community) apparently impacting on our distribution with an exemplified loss of £190,000.

An objective view on the statistical merits of the change should be left to others but a response arguing that such changes should not have impacts in unrelated areas ought to be reiterated.

It is suggested that all comments set out in this paragraph which are directed at the specific questions posed in the Consultation Paper, are only relevant if the government decides to change the formula for grant distribution. The overriding views are set out in the next paragraph.

4 Other Issues

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

- i the potentially significant variations in grant exemplified will be difficult to manage in conjunction with the predicted absolute loss of grant for the service as a whole, the impact of data changes, possible precept freeze incentives, and proposed referendum rules. Given the short period of time between the grant announcement and the need to consult and then set the level of Council Tax, changes to the grant distribution formula should not be made in 2011/12.
- ii that the grant withheld in the current three year settlement as a result of flooring protection should be included in the new grant mechanism. This would allow all Authorities to receive full recognition of their entitlements under the previous arrangements.

5 Summary

The Government's consultation proposals are on balance un-favourable. It is not possible to put a value on potential total change at this stage, although the exemplifications indicate that if all the proposed areas for change were implemented and before flooring, there might be a possible £44,000 loss (at best) or a possible £1,555,000 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 will also be a redistributive effect from up-dated data.

Significant grant changes may well be difficult to manage in 2011/12 when interacting with new referendum rules and any grant incentives to set a zero precept increase.

6 Financial Implications

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

7 Legal Comment

There are no legal implications arising directly from this report.

8 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.

9 Appendices

Appendix A List of Questions

Appendix B Variations for changes to the Current Risk Index

10 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.

Business Continuity Planning		Member Involvement	
Capacity		National Framework	
Civil Contingencies Act		Operational Assurance	
Efficiency Savings		Public Value	
Environmental		Retained	
Financial	*	Risk and Insurance	
Fire Control/Fire Link		Staff	
Information Communications and Technology		Strategic Planning	*
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*
Legal	*		

Chapter 18

List of Questions

Chapter 3 –Adults’ Personal Social Services

Question 1: Do you agree that we should update the Low Income Adjustment (OPPSS1)?

Chapter 4 - Police

Question 2: Do you agree the activity analysis should be updated and a three year average used instead of the current two year average (POL1)?

Question 3: 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 (POL4)?

Question 4: 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)?

Question 5: 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)?

Chapter 5 – Fire & Rescue

Question 6: Do you agree that the expenditure data used to determine the coefficients should be updated (FIR1)?

Question 7: Should annual cashable efficiency savings be added to the updated expenditure data used to determine the coefficients (FIR2)?

Question 8: Would you prefer either FIR3 or FIR4 as an alternative to the current risk index?

Chapter 6 – Highways Maintenance

Question 9: Do you agree that the daytime visitors component of daytime population per km should be removed? (HM1)

Question 10: Do you agree that the expenditure data used to determine the coefficients should be updated? (HM2)

Chapter 7 – Environmental, Protective and Cultural Services

Question 11: Do you agree that foreign visitor nights is a suitable replacement for day visitors in the district-level and county-level EPCS RNFs (EPCS1)?

Question 12: Do you agree that the new GIS–based flood defence formula should be used (EPCS2)?

Question 13: Do you agree that the new GIS–based coast protection formula should be used (EPCS3)?

Chapter 8 – Area Cost Adjustment

Question 14: Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA 1)?

Chapter 10 – Scaling Factor

Question 15: 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 16: 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?

Chapter 11 – Floor Damping Levels

Question 17: 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?

Chapter 12 – Transfers and Adjustments

Question 4: 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)?

Question 5: 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)?

Question 18: Which of the four options for removing concessionary travel from lower-tier authorities do you prefer (CONCF1, CONCF2, CONCF3, CONCF4)?

Question 19: Which of the six options for rolling in concessionary travel to upper-tier authorities do you prefer (CONCF5, CONCF6, CONCF7, CONCF8, CONCF9, CONCF10)?

Question 20: Should concessionary travel have its own sub-block?

Question 21: Do you agree with the methodology for adjusting the base position for unadopted drains?

Chapter 13 – The Incapacity Benefit and Severe Disablement Allowance indicator

Question 22: Do you agree that the incapacity benefit and severe disablement allowance indicators should use quarterly data rather than annual data (DATA1)?

Chapter 14 – Replacing the Children’s Income Support Benefit Indicator

Question 23: 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)?

Chapter 15 – Student Exemptions and the Council Tax Base

Question 24: Would you prefer that May data only is used for the student exemptions adjustment in the taxbase projections (DATA3)?

Chapter 16 – Updating data on low achieving ethnic groups

Question 25: Do you agree that the new definition of secondary school pupils in low achieving ethnic groups should be used (DATA4)?

Formula Grant Before Damping, % Difference from 2010/11 Initial Allocation under Option FIR3

