

**CONSULTATION ON CHANGES TO THE WAY THE GOVERNMENT
PROVIDES FINANCIAL SUPPORT TO LOCAL AUTHORITIES
(Report by the Director of Commerce and Technology)**

1. PURPOSE

- 1.1 The purpose of this report is to explain the Government's suggested options for changing the way they calculate their financial support to Local Authorities for 2006/07 onwards.

2. BACKGROUND

- 2.1 Approximately 25% of public spending in England is by local authorities on services they provide. Much of this is funded by central government, with the balance being raised locally via council tax.
- 2.2 The current Grant Distribution System was last reviewed for the 2003/04 settlement. Since then the formula has been frozen to provide stability.
- 2.3 The system distributes the sums determined in the Government's spending reviews by reference to authorities' relative needs (to spend) and their ability to raise council tax (size of tax base).
- 2.4 The Government's aim for this review is:

“to produce a robust and fair system for the distribution of formula grant that will be fit for use in the context of three year settlements. That will include, among other things, adaptations to make the system more forward looking.

The Government recognises that any system based on formulae cannot reflect all possible circumstances, so there will inevitably be an element of rough justice: and that the technical nature of the issues means that there is frequently no clear cut optimum solution, so pragmatic decisions will be needed to produce a workable system.”

- 2.5 It is a very technical review, because the system itself is technically complicated. Our approach to it is twofold:
- Does it make the system fairer?
 - Would this Council gain or lose as a result of the proposed changes?

3 THE CURRENT SYSTEM

- 3.1 The paragraphs below briefly explain the current system so that the potential changes can be more readily understood.
- 3.2 Based on a complex system of formulae, the Government first calculates each Council's **Formula Spending Share (FSS)**. Local Authorities

argue that FSS is the amount the Government believes they need to spend to deliver their services. The Government insists that it is a measure of relative need rather than absolute need.

3.3 The Council's FSS for 2005/06 was made up as follows:

Environmental, Protective and Cultural Services	£M 19.962	Significantly based on population but also adjusted for density, sparsity, in-commuters, day visitors, deprivation, area cost adjustment ¹ and a scaling factor.
Flood Defence	0.343	Government view on historic spending then adjusted by a scaling factor – understates true cost.
Fixed Costs	0.300	Set amount for all Councils
Revenue items	20.604	
Debt Charges	0.874	Based on us notionally having £7.7M of debt at start of year.
Interest on Reserved Receipts	-0.512	Share of the Shire Districts total for capital receipts set aside to repay debt.
Interest on Other Receipts	-0.434	Notional share of the Shire Districts total for capital receipts available to spend.
Capital Items	-0.072	
TOTAL FSS	20.532	

FSS is deemed to include Town and Parish spending.

- 3.4 The Government then calculates how much would be raised if District plus Town/Parish Council Tax averaged the Government's assumed rate of **£182** which, based on the Government's assumption for our tax base (56,472), would provide **£10.274M** from Taxpayers.
- 3.5 Thus Government Support (Grant plus share of Non Domestic Rates) **should** fund the difference of **£10.258M** (£20.532M - £10.274M)
- 3.6 However, the last major changes to the formula, which extended the impact of the Area Cost Adjustment to this area (recognition that local labour costs are higher), resulted in some large winners and losers. The Government provided transitional relief for the losers at the expense of the winners (known as "floor damping"), and our actual Government Support for 2004/5 is therefore £0.750M lower at **£9.508M**.

¹ Area cost adjustment is designed to take account of different costs of carrying out the same activities in different parts of the country, for example higher labour costs in South-East England.

4. CONSULTATION

- 4.1 The consultation document has 315 pages. Much of this is not relevant to us, as it relates to services provided by Counties and unitary authorities. Those proposed changes which are relevant to us and would have a significant impact on the level of Government Support we receive are set out in the Annex to this report.
- 4.2 It is important to note, though, that this is just a consultation document. Some of the changes may not occur at all and others may be substituted. As some of the impacts are significant, larger authorities or groups of authorities are likely to lobby for alternative options which will be financially beneficial to them. Also, because of the complexity of the formulae, a combination of changes may have an impact that the individual changes do not signal.
- 4.3 There is also some uncertainty as to what the total grant settlement for 2006/7 will be. The LGA is concerned that some of the 2005/6 total was one-off funding and that the total sum to be allocated by whatever formula is chosen will include a significant reduction. This would have a corresponding impact on the extent to which we might gain or lose as a result of the changes to the allocation formula.

5. CONCLUSIONS

- 5.1 A number of the proposed changes could have a significant financial impact on this Council. Because the exercise is mainly about changing the distribution of total government support rather than increasing it, the total of the gains made by some authorities will generally be matched by the total losses of other authorities.
- 5.2 The indications from the proposals are mixed. We may be among the winners or the losers, depending on which combination of changes is eventually made. Also, we are only at the consultation stage and experience suggests that, even if we were to gain once the process is completed, this may only result in a staged increase in our funding over a number of years.

6. RECOMMENDATION

- 6.1 Cabinet is recommended to authorise the Director of Commerce & Technology to respond to the Government's consultation on the Council's behalf, after consultation with the Executive Councillor for Finance.

ACCESS TO INFORMATION ACT 1985

Consultation Document published by the Office of the Deputy Prime Minister's Office

Budget Working Papers - Files in Financial Services

Contact Officer:

Steve Couper Head of Financial Services ☎ **01480 388103**

ENVIRONMENTAL, PROTECTIVE AND CULTURAL SERVICES

2001 Census data

Much of the data is based on the 1991 Census. The Government proposes to use 2001 Census instead, while ensuring that total FSS doesn't change in total. This is obviously entirely reasonable, although it would result in a **LOSS of £83K** for us.

Concessionary fares

The Government's 2005 Budget announced a free concessionary bus fare scheme for people aged over 60 and people with disabilities, which the Government intends to fund by an extra £350 million.

The Government is consulting on how that should be allocated. Its view is that that take-up is likely to be higher in urban areas, where there is a higher density of bus services, and among those people who do not own a car, and their proposed changes follow from this. The impact on HDC would be a **GAIN of £536K**. However, it is important to note that the introduction of the scheme will result in a cost for the Council as a result of having to reimburse the bus companies their increased costs. We do not have the information at present to say what those costs will be, but they are likely to be less than £536k p.a.

An alternative view would be that the cost increases incurred by bus companies would be higher in rural areas because the introduction of the scheme would increase take-up more than in urban areas. If the formula followed this line of argument, we could expect to gain by around twice as much as in the Government's current proposals, so that is the line we will take in our response.

CAPITAL FINANCING

The Government is proposing to simplify the way this element is calculated. There are various ways in which they could choose to do this, but the result for HDC should be a **GAIN of between £485k and £946K**. We will support this simplification.

AREA COST ADJUSTMENT (ACA)

Two of the proposed changes would have significant implications. One would result in "raising the bar" so that fewer authorities gain from ACA, which would result in a **LOSS of £102K** for us; the other would result in a **GAIN of £83K**. We will be arguing that it would not be appropriate to raise the bar.

ADDITIONAL RESOURCE EQUALISATION

Resource equalisation is a means by which the Government can reallocate the overall FSS pot to address the needs of those authorities which it considers to have high levels of need but a low ability to raise Council Tax because of their low tax base.

The effect of the Government's proposals would be to transfer funds from low-spending to high-spending authorities, the underlying assumption being that the level of spending reflects the level of need. The result for HDC would be a **LOSS of between £227k and £472k**. We will be arguing that the basis for resource equalisation should not be changed.

FLOOR DAMPING

The Government insists that floor damping, the means by which the "losers" in the last change to the grant calculation are subsidised for a period to ease the transition, must be cost neutral.

At the moment, it is only the "winners" from that change, including HDC, which subsidise the losers, as described in paragraph 3.6 of this report. A fairer alternative would be for the losers to be subsidised by a broader group of local authorities, thus spreading the burden. Depending on which group of authorities is selected, e.g. all Districts or all Councils, HDC would **GAIN by £307k to £599k**.

We will be supporting this approach. However, it is important to note that **this would not be additional funding**. It would simply be an acceleration of the rate at which we receive the £750k p.a. we are owed as a result of the last set of changes to the formula.

DAY VISITORS DATA

In several formulae, account is taken of not only the resident population but also the numbers of visitors to an authority's area, as these can place additional demands on some local services.

There is no consistent, reliable source of information on the number of day visitors from one authority's area to another's. As part of the review, the Government commissioned some research to update the day visitors indicator to include information from other sources. It also re-defined day visitors as those visiting from within a 10-mile radius rather than a 20-mile radius.

The Government proposes to use this research as the new basis for the calculation, and the impact on HDC would be a **£96k LOSS**. We will argue that the new data set is no more reliable than the old and that the basis of calculation should stay the same.