
Report to

Scrutiny Board 1
Cabinet
Council

29 August 2007
11 September 2007
18 September 2007

Report of

Director of Finance and Legal Services

Title

Local Government Finance Formula Grant Distribution Consultation

1 Purpose of the Report

- 1.1 This report presents Coventry's proposed response to the Government's Local Government Finance Formula Grant Distribution consultation paper.

2 Recommendations

- 2.1 Scrutiny Board 1 is asked to consider the proposed response in the appendix to this report and forward its comments on it to Cabinet.
- 2.2 Cabinet is recommended to note the comments of Scrutiny Board 1, agree or amend them and submit the response to Council for approval.
- 2.3 The Council is asked to approve the appendix, as amended by Cabinet, as Coventry's formal response to the consultation.

3 Information/Background

- 3.1 The Government published the Local Government Finance Formula Grant Distribution consultation paper on 17th July 2007 and invited comments by 10th October 2007.
- 3.2 The consultation is open to responses from across the Local Government community. The outcome will dictate a number of the Government's resource allocation decisions within the 2007 Comprehensive Spending Review (CSR2007), due to be published in the autumn. These decisions could affect Coventry's eventual level of Formula Grant by several millions of pounds.
- 3.3 Section 8.3.1 of the Council's constitution states that Scrutiny (where practicable), Cabinet and Council should consider Government consultation papers of a non-technical nature. The potential impact of the outcome of this consultation is such that it has more than just technical significance. Therefore, it is appropriate for it to be considered within these forums.

4 Proposal and Other Option(s) to be considered

- 4.1 The consultation involves a series of 30 questions, the answers to which will be used by the Government to inform some of its CSR2007 resource allocation decisions. We are invited to give a Yes/No answer and/or make a comment to reflect the authority's views in response to the questions. A number of them are not directly relevant to the City Council – for instance they relate to County Council or Police Authority funding – and where this is the case it has been made clear within the response. The copy of the response in the appendix of this report also includes some italicized explanatory notes.
- 4.2 For those questions relevant to the City Council, answers have generally been entered for member approval that aim to maximise the financial benefit to the City Council. We do however try to strike a balance with what is felt to be reasonable. For instance, where questions ask if the most up to date data should be used to feed into resource allocation models we have answered that they should, irrespective of any potential impact on the City Council.
- 4.3 The most significant issues / questions from a financial perspective and our response to them are shown in the table below.

Question Number	Consultation Issues / Questions	Impact of Proposed Answer
2-5	Formula Floors – These protect individual authorities from experiencing a sudden loss of grant entitlement from changes in methodology or updating of data.	Removing Formula Floors would benefit Coventry by up to £1.4m
6	Social Services for Older People. Low Income Adjustment – This adjustment attempts to reflect an authorities ability to raise income from fees and charges.	We feel that Option 2 should be selected because the data is updateable. This would benefit Coventry by c£0.8m
11	Highways Maintenance – This asks whether updated highways expenditure data should be used.	We think that updated data should be used as a matter of principle. Indications are that this will be at a detriment to Coventry of c£0.4m.
12	Concessionary Fares – There are alternative proposals for distributing Formula Grant to fund the enhanced arrangements for Concessionary Fares.	All 3 options indicate additional funding for Coventry to fund the likely cost of this issue (between £1.3m and £1.4m). We feel that Option 3 gives a more comprehensive assessment of cost pressures.
15-18	Area Cost Adjustment (ACA) – This adjustment attempts to reflect the variations in cost pressure that arise from wage differentials between authorities.	We support the 4 separate modifications that update the ACA methodology. They have minimal financial effect on Coventry.
22-23	Tapering Grant Floors – Protection for authorities that would otherwise suffer sudden loss of resources by allowing grant loss only in a	Reducing grant floors will benefit Coventry by between £0.3m and £1m.

	controlled and planned way	
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5 Other specific implications

5.1 Finance

5.1.1 The final outcome of the consultation will ultimately manifest itself within the autumn announcement of the SR2007. The potential financial impact of the issues covered within this report could range between a best-case additional resource position of £4.9m and a worst case reduced resource position of £1.1m. Current indications are that the most likely case is an improvement of c£3m. The likelihood is that, because of damping, in which sudden changes in grant are smoothed out, all these figures represent the total impact at the end of the 3 year CSR2007 period.

5.1.2 This information will need to be fed into the wider resource forecasts that we make including indications of the overall increase in Formula Grant being proposed by the government. We will not know the results of this until the CSR is announced in the autumn.

5.1.3 Any impact on our level of resources could affect our ability to deliver services across the full range of activity. In terms of any specific or immediate impact however, this report is limited to cover specifically financial matters.

5.2

	Implications (See below)	No Implications
Best Value		✓
Children and Young People		✓
Comparable Benchmark Data		✓
Corporate Parenting		✓
Coventry Community Plan		✓
Crime and Disorder		✓
Equal Opportunities		✓
Finance	✓	
Health and Safety		✓
Human Resources		✓
Human Rights Act		✓
Impact on Partner Organisations		✓
Information and Communications Technology		✓
Legal Implications		✓
Neighbourhood Management		✓

	Implications (See below)	No Implications
Property Implications		✓
Race Equality Scheme		✓
Risk Management		✓
Sustainable Development		✓
Trade Union Consultation		✓
Voluntary Sector – The Coventry Compact		✓

6 Monitoring

6.1 The resource position will be a central theme of information reported to members through the budget setting process.

7 Timescale and expected outcomes

7.1 The Final Settlement will be announced in January 2007 and will feed into our final budget setting report that Council will consider in February.

7.2

	Yes	No
Key Decision		✓
Scrutiny Consideration (if yes, which Scrutiny meeting and date)	✓	29th August
Council Consideration (if yes, date of Council meeting)	✓	18th September

List of background papers

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Papers open to Public Inspection

Description of paper

Location

None

APPENDIX

NB. Explanatory notes are included in Italics.

FORMULA GRANT DISTRIBUTION CONSULTATION RESPONSE

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CHAPTER 2: Formula Grant And Local Government Restructuring In A Three-Year Settlement

Q1 Do you agree with the fallback mechanism described for calculating settlements in restructured areas during the 3 year settlement?

Yes
No

Any further comments:

This issue relates to reorganisations involving county, district and unitary authorities and is not, therefore, directly relevant to City Council funding.

CHAPTER 3: Children's and Adult' Personal Social Services

Personal Social Services Formula Damping

Q2 Should the specific formula floor continue for Children's PSS?

Yes
No

Any further comments:

As the consultation document itself points out, the main means of promoting stability and predictability is the overall grant floor. The specific formula floor adds complexity and reduces transparency, without adding any real additional control / functionality.

Q3 If yes to Q2, how quickly should the formula floor be phased out?

Not applicable

Q4 Should the specific formula floor continue for Younger Adults' PSS?

Yes

No

Any further comments:

It should be discontinued for the same reasons as given in the answer to question 2 above.

Q5 If yes to Q4, how quickly should the formula floor be phased out?

Not applicable

Social Services for Older People

Q6 Which option do you prefer for the Low Income Adjustment -

SSE1

SSE2

Any further comments:

The Low Income Adjustment takes account of local authorities' differing ability to raise income from fees and charges.

Option SSE1 uses 2001 Census information regarding the proportion of older people living in rented accommodation. Option SSE2 uses the proportion of older people in receipt of income support, income based job

seekers allowance or pension credit.

As the consultation document points out the variable used in SSE2 has only got fractionally less explanatory power than those used in SSE1, but it has the advantage that the data is updateable

CHAPTER 4 - Police

Q7 Do you agree the resource base should be updated (POL1)?

Yes

No

Any further comments:

No specific comment - not directly relevant to City Council funding. Please see comments regarding the effect of damping on West Midlands Police Authority in the answer to Question 22.

Q8 Do you agree that the Additional Rule 2 grants should be rolled into principal formula Police Grant (POL2)?

Yes

No

Any further comments:

No comment - not directly relevant to City Council funding.

Q9 Do you agree that the Crime Fighting Fund should be rolled into principal formula Police Grant (POL3)?

Yes

No

Any further comments:

No comment - not directly relevant to City Council funding.

CHAPTER 5 – Fire and Rescue

Q10 Do you agree that the expenditure base used to determine the coefficients should be updated (FIR1)?

Yes

No

Any further comments:

No comment - not directly relevant to City Council funding.

CHAPTER 6 – Highways Maintenance

Q11 Do you agree that the expenditure base used to determine the coefficients should be updated (HM1)?

Yes

No

Any further comments:

This is in accordance with the general principle of using the most up to date information. The key indicator used in the Highways Maintenance calculations is the length of roads within an authority. The calculation also includes adjustments for traffic flow, population, snow fall and road gritting. The current calculations makes these adjustments based on the pattern of spending in 1998/99. Q11 is asking whether this pattern of spending should be based on data from the 2003 – 2005 period.

CHAPTER 7 – Environmental, Protective and Cultural Services

Concessionary Fares

Q12 If the money is to be added to Formula Grant, which option for distribution do you prefer -

EPCS1

EPCS2

EPCS3

Any further comments:

In the 2006 Budget the Government announced that, from April 2008, people aged 60 or over and eligible disabled people in England will get free off-peak travel on all local buses anywhere in England (rather than just within their local authority area of residence). The Government will be providing around £200m of resources to support this. Q12 is asking our views as to which method to use to allocate these resources.

Option EPCS3 distributes funding based on the numbers of commuters, day visitors and incapacity benefit claimants.

The information provided in the consultation paper suggest that the methodology in option EPCS3 provides a more comprehensive assessment of the likely cost pressures.

Q13 Do you have any other suggestions for distributing the funding via Formula Grant?

Yes (please specify below)

No

If yes, please specify:

This question relates specifically to the concessionary fares funding, rather than the Formula Grant distribution in general.

CHAPTER 8 – Capital Finance

Q14 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?

Yes

No

Any further comments:

This is simply an administrative efficiency (avoiding updating historical data) that can be introduced without significantly affecting the level of grant for any authority.

CHAPTER 9 – Area Cost Adjustment

Q15 Do you agree with the proposal to update the weights given to the rates cost adjustment (ACA1)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

Q16 Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA2)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

Q17 Do you agree that we should revise the geography of the ACA?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

Q18 Which option for revising the geography of the ACA do you prefer?

ACA3
ACA4

Any further comments:

Information in the consultation document suggests that ACA4 more closely matches wage patterns.

Q19 Do you have any other proposals for revising the geography of the ACA?

Yes (please specify below)
No

If yes, please specify:

CHAPTER 10 - Taking account of Relative Needs and Resources

Q20 Do you think there should be further judgemental change in the extent to which the system takes account of needs or resource?

Yes
No

Any further comments:

The current system of distributing Formula Grant (introduced for the 2006/07 settlement) is far less transparent than the previous FSS methodology. As such, the balance between relative needs and resources (which is equivalent to determining a 'Council Tax at Standard Spend') is impossible for Council's to evaluate without complex analysis.

With the previous FSS methodology, the appropriate balance between relative needs and resource was maintained, in an unbiased way, by examining overall council spending at a national level and carrying out resource equalisation at a national level. This involved adjustments to the FSS control totals.

Although the presentation of the information, under the current system is less transparent the underlying principles are the same. It would be possible, therefore, to base any changes in the balance between needs and resources on overall council spending levels, rather than any more subjective assessments.

Q21 If yes, what change would you suggest?

Return to the previous FSS system, which was simpler and more transparent.

CHAPTER 11 – Tapering Grant Floors Down

Q22 Do you support the approach of reducing the levels of grant floors over the 3 years of the settlement?

Yes

No

Any further comments:

The purpose of grant floors is to protect any individual authorities from suffering a sudden, significant and unpredictable loss in resources. Reducing the levels of grant floors in a controlled and planned way would maintain the intended protection, but also release more resources for the authorities that would have a higher Formula Grant increase, according to the underlying settlement calculations.

Grant floors have also significantly and adversely affected the West Midlands Police Authority. In the 2007/08 settlement they lost over £48m of Formula Grant as a result of the damping required to cover the cost of the grant floor. We would strongly support any reduction in the level of damping, so that funding can be more closely matched to the needs of authorities as calculated using the most up to date information, rather than being based on historical levels of funding.

Q23 Do you have other suggestions on the way in which the grant floors system should be operated?

Yes (please specify below)

No

If yes, please specify here

In addition to tapering the floor level down over the three years, all specific formula floors should be removed, so that the grant protection within the system is simpler and more transparent.

CHAPTER 12 – 100% Quarterly Scans of Benefits Data

Q24 Do you agree that the DLA indicator is based on a three-year average using quarterly rather than annual data (DATA1)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

Q25 Do you agree that we use quarterly data on income support and claimants of pension credit (DATA2)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

CHAPTER 13 – Attractiveness of an Area to Day Visitors

Q26 Do you agree that we should replace the day visitors indicator with a population-weighted indicator that takes into account the attractiveness of an area to day visitors (DATA3)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

Q27 Do you agree that we should remove the day visitors indicator from the Highways Maintenance formula (DATA4)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

CHAPTER 14 – Student Exemptions and the Council Tax Base

Q28 Do you agree that we use student exemption numbers from 31 May 2007 to adjust the starting position of the taxbase projections (DATA5)?

Yes
No

Any further comments:

DATA5 and DATA6 (see below) are 2 alternatives. We prefer DATA6 as it uses later information and is therefore in accordance with the general principle of using the most up to date information.

Q29 Do you agree that we use the average of student exemption numbers from 31 May 2007 and mid-September 2007 to adjust the starting position of the taxbase projections (DATA6)?

Yes
No

Any further comments:

This is in accordance with the general principle of using the most up to date information.

OTHER COMMENTS

Q30 Do you have any other comments or alternative proposals?