

CONSULTATION RESPONSE – LOCAL GOVERNMENT FINANCE

1 SUMMARY

- 1.1. This report seeks Member approval to the proposed response to “Local Government Finance Formula Grant Distribution – A Consultation Paper”, copies of which are on display in the Members Rooms at Rayleigh and Rochford.

2 BACKGROUND

- 2.1. One of the first commitments of the Government, when it came to power in 1997, was to carry out a fundamental review of the way grant was distributed to local government.
- 2.2. District Councils, and Rochford in particular, receive very poor financial support from Government. Owing to the diverse nature of Districts and that they tend to have small budgets compared to other tiers of local government, they have tended to be disregarded by successive Governments.
- 2.3. In 1997, Rochford became a founder member of the Town and Country Finance Issues Group (TACFIG). This group comprised of similar councils to Rochford and has sought to influence Ministers and persuade them that Districts do deserve to receive fairer treatment in the way grant is distributed.
- 2.4. During the early part of the review, TACFIG submitted a case which outlined the positive impact Districts have on the day to day lives of their residents. The submission demonstrated the inadequate support received by Districts and put forward proposals for a fairer settlement.
- 2.5. Owing to that early submission, help from an all-party group of MP's and generating good publicity, TACFIG representatives have been afforded meetings with Ministers and Civil Servants.
- 2.6. The consultation document in respect of the final proposals was published in July, with a response deadline of 30 September 2002.
- 2.7. Prior to drafting this report, meetings were held with other Essex authorities and TACFIG. Where there is common ground, the response proposed will be in common with other Essex authorities and support the TACFIG submission.

3 PROPOSED SYSTEM – PRINCIPLES

- 3.1. The Government is seeking to present the basic structure in a very simple form:-

BASIC ALLOCATION + DEPRIVATION TOP-UP + PAY-COST
TOP-UP + OTHER TOP-UPS.

Whilst this will make the allocation appear very simple, it will, in fact, be supported by a number of complex mathematical formulae, very similar to the current regime.

- 3.2. The principles for the formulae are:-

- ◆ Should reflect all local authorities' relative circumstances
- ◆ Should not be treated as an infallible guide to how much local authorities should spend
- ◆ Should, where possible, be based on objective and factual evidence which relates to need to spend on services
- ◆ Should be constructed and applied in such a way that the resultant grant distribution is more predictable and more stable than the current system
- ◆ Where possible, the most recent available data should be used in constructing formulae and in underlying analyses
- ◆ Data should be capable of being justified on a rational basis, and where they are particularly volatile from one year to another they should be "smoothed" (eg., by taking an average over several years).
- ◆ Should not create perverse incentives or penalise authorities for improving efficiency
- ◆ Control total, methodology and data changes ought to be provided to local government with as much advance notice as possible

In accepting these principles there are constraints, which are:-

- ❖ Any system based on formulae cannot reflect all possible circumstances, so there will inevitably be an element of rough justice. This tends to be increased as formulae are made simpler

- ❖ The information necessary to develop wholly robust and objective formulae is not always available, so elements of judgement and reliance on complex statistical techniques are sometimes unavoidable
- ❖ Since the system can only distribute available resources, it must be based on comparisons between authorities rather than absolute measurements of their need to spend. This means that a balance will often need to be reached between competing pressures.

4 PROPOSALS AFFECTING ROCHFORD

4.1. Environmental, Protective and Cultural Services (EPC)

4.1.1. This is the element of the proposed new formula which has the greatest impact on Rochford. There are four options:-

- EPC1 uses resident population and brings in factors for deprivation, density, day visitors and commuters
- EPC2 uses resident populations, but removes adjustments for commuters and visitors
- EPC3 is similar to EPC1 but uses weight given to deprivation, although higher weights commuters and visitors
- EPC4 – simplified version of EPC2, but with greater weighting given to deprivation.

4.1.2. The impacts on Rochford SSA of the above four options are:-

	£m
EPC1	+0.8
EPC2	+1.2
EPC3	+1.2
EPC4	-0.4

4.1.3. Rochford, along with TACFIG, has constantly argued that the formula for Shire District services should be as simple as possible and driven predominantly by resident population. Very few of our services are affected by losing commuters to London or by deprivation. Whilst not meeting all of our arguments, EPC2 does appear the simplest option and should therefore be the Council's preferred option.

4.2. Capital Finance (CF)

- 4.2.1. This block is intended to provide support for borrowing costs, but also reduce Government support where authorities benefit from interest received from investments.
- 4.2.2. Again, there are four options put forward. These essentially differ in respect of how the impact of interest received affects lower tier authorities.
- 4.2.3. The impacts on Rochford SSA of the four options are:-

	£m
CF1	+0.4
CF2	+0.5
CF3	+0.2
CF4	-0.2

- 4.2.4. With regard to this element, Rochford would support option 2.

4.3. Area Cost Adjustment (ACA)

- 4.3.1. The area cost adjustment has reflected the fact that costs in London and the South East are higher than in other parts of the country. This element has, for many years, been the issue of much debate between South East authorities and authorities in the rest of the country.
- 4.3.2. The Government has accepted the argument that area cost issues can cover areas other than London and the South East. This means that the options all take money from the current beneficiary authorities and redistributes funds to other areas of the country.
- 4.3.3. Five options have been put forward in respect of this element:-
- ⇒ ACA1 uses wage evidence from the New Earnings Survey. It also extends the ACA area to include Cambridgeshire, Northamptonshire, Warwickshire, Avon, Gloucestershire and Wiltshire.
 - ⇒ ACA2 uses different source data and attempts to target the effects to individual authorities, rather than just at County level.
 - ⇒ ACA3 uses wage rates in just the private sector.
 - ⇒ ACA4 is a variant on ACA2 and ACA3, but attempts to give a weighting to authorities across the country.

⇒ ACA5 is similar to ACA4, but restricted to private sector wages.

4.3.4. The impacts on Rochford of the five options are:-

	£m
ACA1	-0.1
ACA2	-0.1
ACA3	-0.1
ACA4	-0.2
ACA5	-0.2

4.3.5. TACFIG is unable to express a view on the ACA as it has member authorities from outside of the South East. It is proposed that Rochford supports the other Essex authorities' voices in that option 1 should be preferred as it most closely resembles the original concept of the ACA.

4.4. Fixed Costs (FC), Sluggish Costs and Population Change (PC)

4.4.1. The principle of allocating a fixed cost was put forward by TACFIG at the very beginning of the Spending Assessment Review. This was to compensate for the fact that the fixed costs of "being in business" impacted to a far greater extent on small authorities as opposed to large authorities.

4.4.2. In the consultation document it sets out the premise that a fixed cost of £300,000 should be allocated to Shire Districts. However, in the two exemplifications which follow, the impact on Rochford is £200,000 in both cases.

4.4.3. The two options look at the impact of bringing Fire and Police authorities into the proposal.

4.4.4. The original concept put forward by TACFIG argued that the fixed cost element should not be part of the SSA formula, but rather be an actual grant paid to each Council. Our response may, therefore, be that, whilst we can support either option, this element should, at the very least, be a guaranteed minimum level of grant. In addition, TACFIG estimated the sum to be £250,000 based on 1998 prices. The figure therefore needs to be increased.

4.4.5. Sluggish cost and population change do not appear to impact on Rochford.

4.5. Resource Equalisation (RE)

- 4.5.1. This element affects the actual amount of grant paid to the authority rather than the calculation of the spending assessment. It is designed to ensure that, if all authorities spent at their Standard Spending Assessment (SSA), then council tax throughout the country would be the same. As Rochford has an above average number of Band D equivalent properties, the Council has always suffered a reduction of grant.
- 4.5.2. Three options have been put forward in respect of resource equalisation, all of which penalise Rochford even further.
- 4.5.3. The impacts of the three options would be to reduce the actual amount of grant payable to Rochford as follows:-

	£m
RE1	-0.3
RE2	-0.6
RE3	-0.4

- 4.5.4. In this instance, the Council should elect to preserve the status quo. Whilst we do lose grant under the existing system, it is at least explainable in that the Government sets a notional level of council tax which is then related to the council tax base. The proposals suggest assuming higher tax levels based on past performance. If the Government wishes to achieve this, then the SSA formulae need to be amended, not the resource equalisation.

4.6. Predictability and Stability

- 4.6.1. This element considers two aspects, floors and ceilings and smoothing of data.
- 4.6.2. Floors ensure that any authority losing grant will be protected. The money for this protection will come from ceilings being imposed where authorities will make gains from the new arrangements.
- 4.6.3. Three options have been suggested, but there are no exemplifications provided, so the effect on Rochford cannot be assessed.
- 4.6.4. It is suggested that the concept of floors and ceilings is supported. One of the principles set out in the options is that adjustments for services should only relate to those authorities affected by the change. This principle can also be supported.
- 4.6.5. Smoothing data will help to ensure that there are no violent fluctuations to assessment year to year. This should assist local authorities in their future financial planning and should be supported.

4.7. A Simpler Presentation of the new System

- 4.7.1. It is suggested that the assessment is published as set out in paragraph 3.1. above. The Government believes this would aid transparency.
- 4.7.2. Both Essex authorities and TACFIG do not accept this argument. To publish the assessment in this simplified form would mislead the public into believing it is simple. This is not the case. The new system would only be marginally less complicated than the existing system.
- 4.7.3. It is suggested that the Rochford response should support Essex and TACFIG.

4.8. Merging RSG and Redistributed Non-Domestic Rates into a Single Grant Stream (Formula Grant).

- 4.8.1. This has already been discussed at the meeting of this Committee on 9 July 2002 in connection with the response to the Local Government Bill. It was agreed that the proposal should be rejected.

5 IMPACT ON ROCHFORD

- 5.1. At this point in time, it is impossible to predict what the impact of the above proposals will be on Rochford. Although the proposals for each block appear to show the implication they are very much dependent on data input and its imposition of floors and ceilings. As a very rough guide only, the worst scenario is a loss of grant of £1m. and the best is a gain in grant of £1.5m.
- 5.2. Since the publication of the document, further proposals have been put forward by organisations representing the larger authorities. No additional proposals have been put forward on behalf of the Districts. This, once again, demonstrates the disadvantage the Districts have in presenting their case to Government on issues such as this.
- 5.3. The final announcement of the new system will be made in late November or early December.

6 THE WAY FORWARD

- 6.1. A member meeting of TACFIG authorities will take place on the afternoon of 10 September. At that meeting, the issue of how best to put our arguments to Government will be discussed. A verbal update will be given to Committee on the evening.

7 RESOURCE IMPLICATIONS

- 7.1. None at present.

8 RECOMMENDED

It is proposed that this Committee **RESOLVES**:

- (1) That a response be formulated in accordance with Members' views and those set out in the above report.
- (2) That a copy of the response be forwarded to the two local MP's, asking that they co-ordinate their response in the manner agreed at the TACFIG meeting on 10 September. (CD(F&ES))

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Background papers: Consultation Paper

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