

Executive

Response to Formula Grant Consultation

11 October 2010

Report of the Head of Finance

PURPOSE OF REPORT

This report contains the Council's response to the Government's Consultation Paper on Formula Grant distribution which includes the transfer of funding for concessionary travel to upper tier authorities.

This report is public

Recommendations

The Executive is recommended to:

- (1) Note the contents of the report and response to the consultation (Appendix 1)
- (2) Continue to lobby to minimise the financial implications of the transfer of funding for concessionary travel to upper tier authorities.

Executive Summary

Process

The consultation for proposed changes to the Formula Grant was released on 28 July 2010 with a deadline for responses of 6 October 2010. The proposed settlement is normally issued in late November/early December. The settlement will be based on the resources agreed in the Spending Review which is due to be published on 20 October 2010.

In 2010/11 the Council receives £10.9m Formula Grant which funds 60% of the net budget.

This consultation covers all local authorities in England that receive formula grant (Revenue Support Grant, redistributed National Non Domestic Rates and, where appropriate, Police Grant). Police authorities in both England and Wales who receive grant via this system are also covered.

Aim

This consultation document contains options for a number of the components of the grant distribution system. These include some of the relative needs formulae, the balance of weight given to relative needs or resource, and possible improvements to the data used in the formulae.

There are sections containing options on each of these issues, together (where appropriate) with illustrations of how each option would affect individual authorities. The Government believes that the options in this consultation document could be used to update the Formula Grant Distribution System but is not looking to make *major* changes to the formulae for calculating grants.

The options available are still being developed and therefore at the stage of writing this report we cannot confirm specifically which one will be pursued. However we will clearly only support those that meet our criteria and minimize any impact on the authority.

Concessionary Fares

The transfer of concessionary fares from districts to counties could have a significant impact on Cherwell District Council and as such we are considering the range of options available to ensure that we minimise this impact.

On the basis of the exemplifications put forward the Council's 'base' grant will be reduced in line with actual spend on concessionary fare but in addition, from the exemplifications put forward (not all options have been exemplified) the Council would also lose between £0.5m and £1.1m.

These budgetary pressures have been reported to the Executive as part of the Medium Term Financial Scenario Modeling in May 2010.

District and Borough councils need to minimise the amount taken from them, but while each authority knows with certainty how much is spent on Concessionary Travel, complications arise because the finance system does not specify how much each received for the service.

Ideally, the transfer from one tier of local government to another should not result in an additional budgetary pressure for the council tax payer; but the 'four block allocation model' used in the finance system and the need to use formulae rather than actual allocations or actual spending combine to cause huge swings in funding across the country.

The Oxfordshire Treasurers Group (OTA) has been reviewing the consultation from an Oxfordshire position as a whole and the key issue has been the concessionary fares transfer.

Removing funding from Districts is essential - as this function is being moved. All the options are problematical in Oxfordshire though, as Oxford City does

not have enough funding removed, whereas Cherwell, West, South and Vale always lose too much.

One of the options needs to be selected to remove funding (CONCF1, 2, 3 or 4) and it is concluded that CONCF3 is least damaging.

However, this misses the fundamental point that the 'four block model' is a completely inappropriate method of transferring funding for the scheme from lower to upper tiers.

This is borne out by the fact that under the exemplifications contained in the consultation the Police Authorities are affected, to differing degrees depending on the option, by the transfer even though they have no Concessionary Fares responsibility.

While recognising that the complexity of the system rules out a perfect result, the line we have adopted is to say that:

- (i) In the short-term, no council should lose more grant than it is presently spending concessionary fares; this avoids immediate additional budget pressure
- (ii) No class of authority should lose overall

To take more away from authorities is illogical and indefensible. The Council will continue to lobby in respect of minimizing the impact of this transfer.

Response

A template has been provided to respond to each of the questions in the consultation document and Cherwell's response is detailed in Appendix 1. The response only focuses on the items with a significant impact on the Council. Aside from the concessionary travel transfer, most of the options illustrated would not have a significant impact on the Council.

Background Information

Definition

Approximately 25% of public spending in England takes the form of spending by local authorities on services they provide. Most of this money is distributed as grant from central government, with the balance being raised locally via council tax. The Formula Grant Distribution System is concerned with the distribution of a large part of this grant from central government to local authorities, known as Formula Grant.

The aggregate of Revenue Support Grant (RSG) plus income from redistributed business rates – national non-domestic rates (NNDR) – plus police grant is known as the Formula Grant.

Formula Grant is divided into four blocks:

- 1) A needs assessment – Relative Needs Formulae (RNF) – is intended to reflect the relative cost of providing comparable services between different local authorities. It takes account of characteristics such as population and social structure
- 2) A resources element – relative resources amount – takes account of the different capacity of different areas to raise income from council tax due to the differing mix of properties. It is a negative amount as it represents assumed income for local authorities
- 3) A central allocation which is a 'per capita' allocation of funding.
- 4) A floor 'damping block' in order to give every local authority a minimum grant increase. Grant increases to other councils in the same class are scaled back to pay to bring all local authorities up to the appropriate floor increase.

Allocation

The Formula Grant Distribution System was last reviewed before the 2008-09 local government finance settlement. The consultation paper provides the basis for a full consultation on options for grant distribution changes that could be introduced from the 2011-12 settlement onwards.

The system divides up the finite pot of available grant (which is determined in the spending reviews) between all local authorities in England. The system considers local authorities' individual circumstances, their needs and their potential to raise resources locally, relative to all other councils which provide the same services, by reference to a number of mathematical formulae. The Relative Needs Formulae take account of an authority's relative need by considering a number of factors which appear to explain variations in the cost of providing services.

The system also takes account of the fact that areas that can raise more income locally require less support from Government to provide services, and looks at authorities' potential to raise resources through council tax relative to other councils.

To ensure stability in the financing of local services, Government then sets a "floor" or lower limit to any authority's change in their Formula Grant allocation year-on-year to limit losses or gains in grant

History of technical work

The Settlement Working Group (SWG) considers how the formula grant system might be changed. The SWG consists of representatives from all

types of local authority in England along with interested parties from central Government.

A separate technical group examines questions of grant distribution for Police Authorities in England and Wales.

Papers and minutes from the SWG are available on the website for Communities and Local Government:
<http://www.local.communities.gov.uk/finance/1112/grant.htm>

As part of our Medium Term Financial Forecasting we have referred to the work of the SWG to estimate the impact on future formula grant funding.

Formula Changes Being Considered

Most of the changes are fairly technical in their nature. There has not been a fundamental review of the system. The Government is mainly looking “to update and (finely) tune the existing system”. For each change being considered an estimate of the potential impact on the Council is included in the response.

Transfer of Responsibility for Concessionary Travel

This is done in two stages. Firstly, the removal from lower tier authorities and then the addition to the upper tier authorities. In the latter case this includes the incorporation of the special grant into Formula Grant. For consultation purposes illustrations are based on actual spend in 2008/09. The amount allocated for concessionary travel will be decided as part of the spending review.

There are 4 options presented and the Authority is asked to select which one it supports. All of the options put forward have significant distributional effects that range from between £0.5m and £1.1m.

Although the authority should not support any of the options CONCF3 is the option that removes the least at £0.5m from Cherwell.

The Oxfordshire Treasurers Group (OTA) has been reviewing the consultation from an Oxfordshire position as a whole and the key issue has been the concessionary fares transfer.

Removing funding from Districts is essential - as this function is being moved. All the options are problematical in Oxfordshire though, as Oxford City does not have enough funding removed, whereas Cherwell, West, South and Vale always lose too much.

One of the options needs to be selected to remove funding (CONCF1, 2, 3 or 4) It is concluded that CONCF3 is least damaging so all Districts could settle for that.

In short, the best options for Oxfordshire as a whole seem likely to be:

- Option CONCF3 to remove funding from the Districts – our preferred option.
- Option CONCF9 to add funding back to the County

The Formula grant system is so bad at redistributing the money that it should **not** be used for concessionary fares and the OTA believes that instead the upper tier authorities should be given a specific grant paid through Area Based Grant. (ABG)

Response

A template has been provided to respond to each of the questions in the consultation document and Cherwell's response is detailed in Appendix 1. There are a number of questions that do not apply to Districts and therefore a nil response is given.

The response to the consultation paper has been reviewed by Councillor James MacNamara, Portfolio Holder for Resources and the Corporate Management Team prior to submission on Monday 4th October 2010.

The response only focuses on the items with a significant impact on the Council. Aside from the concessionary travel transfer, most of the options illustrated would not have a significant impact on the Council.

Next Steps

The proposed settlement is normally issued in late November/early December. The settlement will be based on the resources agreed in the Spending Review which is due to be published on 20 October 2010 and the outcome of the consultation.

A summary of responses to the consultation will be published by 31st December 2010 at the following address <http://www.local.communities.gov.uk>.

The Council will report on the 2011/12 settlement as part of the first draft budget report in December 2010.

Implications

Financial: None at this stage. The consultation will determine the amount of funding the Council will receive in 11/12 onwards. Our current medium term "realistic" scenario assumes a budgetary pressure of 19.5% grant reduction over 3 years and a concessionary fares budget pressure of £810k

Legal: None

Risk Management: An adverse settlement will exacerbate an already challenging budget position.

Comments checked by Karen Muir, Corporate System Accountant 01295 21559

Wards Affected

All

Corporate Plan Themes

All

Executive Portfolio.

Councillor James MacNamara, Portfolio Holder for Resources.

Document Information

Appendix No	Title
Appendix 1	Response to Consultation Paper
Background Papers	
Settlement Consultation Document –July 2010 MTFS Scenario Planning – May - September 2010 Public Sector briefing notes – July – Sept 2010 Society of District Treasurers briefing notes Oxfordshire County Council Response (once finalised)	
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