

Subject: Review of the Formula for Grant
Distribution

Status: For Publication

Report to: The Cabinet

Date: 19 September 2007

Report of: Executive Director of Resources

Portfolio

Holder: A Well Managed Council

Key Decision: No

Forward Plan

General Exception

Special Urgency

1. PURPOSE OF REPORT

- 1.1 To outline a proposed response to consultation on the grant formula to be used in the three year local government finance settlement covering the years 2008/09 – 2010/11.

2. CORPORATE PRIORITIES

- 2.1 While not impacting directly on any of the corporate priorities the issues dealt with in this report will create the financial background within which the Council will be able to direct resources to priorities over the medium term.

3. RISK ASSESSMENT IMPLICATIONS

- 3.1 This report deals with the financial risks associated with the operation of the Formula Grant System the management of which is addressed in the Medium Term Financial Strategy.

4. BACKGROUND AND OPTIONS

- 4.1 In July the Department for Communities and Local Government (DCLG) published a consultation paper on options for changes to the formula for distributing grant to local authorities. The document is available on the DCLG website and including the full tables of exemplifications runs to in excess of 150 pages. This report seeks to set out the major implications for the Council and propose a response, which is attached for approval

4.2 Changes to the grant formula used to be an annual event. However, as part of the introduction of three years settlements the formula will be frozen over each settlement period, allowing greater stability than previously. It is also true to say that while some of the changes proposed in relation to upper tier service formulae are significant the overall package of changes being consulted on is less than in previous years.

4.3 It is important to understand that this consultation does not address the size of the “grant cake” simply how it is shared out. For this reason it can seem a somewhat abstract exercise. However, if the process is not engaged in robustly the complexity of the grant system is such that there can be unintended results of any change such as when District Councils a few years ago lost grant as a result of changes to the funding of 16-18 education.

4.4 The main issues for Rossendale relate to:

- Concessionary Fares
- Relative needs and Resources

Concessionary Fares

4.5 The changes proposed here relate to the method for allocating additional resources required to fund the changes to the concessionary fares scheme from April 2008. While a figure has been used for the purpose of the exemplifications it is understood that this may not be the final figure and considerable lobbying is underway on the level of resources required for this change. It is also not clear that these resources will be distributed through Formula Grant rather than as a specific grant based on actual expenditure. Although in philosophical terms the former is preferable the latter presents a more practical means of managing the relevant financial risks. It is likely that the answer to this question will only become clear at the time of the settlement which is likely in late November.

4.6 In terms of proposed distribution the case for any of the proposed options is not particularly compelling although one seems to be more statistically robust. It may, though, be preferable to stick with the change made to deal with the first tranche of concessionary fares changes. There is also a case that some resource transfer from the upper tier to lower tier formula should be made in relation to the beneficial impact on route subsidies of the increase in passenger numbers funded through concessionary fares.

Relative Needs and Resources

4.7 Within the overall grant formula there are four blocks the most significant of which are those dealing with needs and resources. The intention of these is to compensate more deprived areas for having a higher need to spend and areas with lower tax bases for the greater difficulty in raising revenue locally. The weightings within the formula for these two blocks is based on judgements and the DCLG are requesting views on whether the judgement should be altered.

- 4.8 As both a relatively deprived area and an area with a relatively low taxbase skewed heavily to Bands A and B it would be expected that Rossendale should benefit in some way from changes of this sort. The results of the exemplifications show in fact that Rossendale would lose grant. This is a counter intuitive result and for this reason the status quo is supported.
- 4.9 Of the other proposed changes most are highly technical or relevant only to upper tier authorities. However, there is one which has a particular resonance in Lancashire although it is an issue which has only marginally affected Rossendale. This is the issue of floors and ceilings within the formula where Lancashire districts have collectively lost several million pounds over the last few years. The suggestion to explicitly unwind the floor over the settlement period is probably the best compromise that can be achieved and it is suggested that this is supported.
- 4.10 With the exception of the changes relating to needs and resources and concessionary fares the impact of the package of proposed changes on Rossendale is broadly neutral. However, given that the individual changes will interact in the settlement in a way they do not in the exemplification the final result is unpredictable.

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

- 5.1 As indicated in the coding of the report the more significant issue is the actual size of the “grant cake” and the implications of this will be dealt with during the budget process.

6. COMMENTS OF THE HEAD OF LEGAL AND DEMOCRATIC SERVICES

- 6.1 There are no immediate legal implications arising from this report.

7. COMMENTS OF THE HEAD OF HUMAN RESOURCES

- 7.1 There are no immediate Human Resources implications arising from this report.

8. CONCLUSION

- 8.1 All consultations on changes to the grant system present a mixed bag of issues for councils to deal with. The attached proposed response provides the Council with the opportunity to consider both where its interests lie and lobby in respect of those interest.

9. RECOMMENDATION

- 9.1 The Cabinet are recommended to note this report and agree the attached consultation response.

10. CONSULTATION CARRIED OUT

- 10.1 None specifically.

11. EQUALITY IMPACT ASSESSMENT

Is an Equality Impact Assessment required No

Is an Equality Impact Assessment attached No

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Background Papers	
Document	Place of Inspection
DCLG Consultation Document	www.communities.gov.uk