

REPORT TO: Cabinet

DATE(S): 30 September 2010

SUBJECT: Consultation on Formula Grant Distribution

WARDS AFFECTED: All

REPORT OF: John Farrell
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EXEMPT/CONFIDENTIAL: No

PURPOSE/SUMMARY:

This report provides Cabinet with an overview of main potential implications of the changes being considered by the coalition government in relation to Formula Grant Distribution and to advise Members of the response to the consultation paper, published in July 2010, that will shortly be submitted on the Council's behalf.

REASON WHY DECISION REQUIRED:

To enable the Council's views on the proposed changes in Formula Grant Distribution to be considered by the Government.

RECOMMENDATION(S):

Cabinet is recommended to agree:

1. That the response contained in Annex B be submitted to the DCLG on the Council's behalf.
2. That the report be copied to all Members of Council for their information and for their use in lobbying on the Council's behalf against the proposals at every opportunity.

KEY DECISION: No

FORWARD PLAN: No

IMPLEMENTATION DATE: Following the expiry of the call-in for this meeting

ALTERNATIVE OPTIONS: There are no alternative options.

IMPLICATIONS:

Budget/Policy Framework: Not appropriate

Financial:

| <u>CAPITAL EXPENDITURE</u> | 2010/ 2011 £ | 2011/ 2012 £ | 2012/ 2013 £ | 2013/ 2014 £ |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Gross Increase in Capital Expenditure | 0 | 0 | 0 | 0 |
| Funded by: | 0 | 0 | 0 | 0 |
| Sefton Capital Resources | 0 | 0 | 0 | 0 |
| Specific Capital Resources | 0 | 0 | 0 | 0 |
| <u>REVENUE IMPLICATIONS</u> | | | | |
| Gross Increase in Revenue Expenditure | 0 | 0 | 0 | 0 |
| Funded by: | 0 | 0 | 0 | 0 |
| Sefton funded Resources | 0 | 0 | 0 | 0 |
| Funded from External Resources | 0 | 0 | 0 | 0 |
| Does the External Funding have an expiry date? Y/N | When? | | | |
| How will the service be funded post expiry? | | | | |

Legal: Not appropriate

Risk Assessment: Not appropriate

Asset Management: Not appropriate

CONSULTATION UNDERTAKEN/VIEWS: Chief Executive

CORPORATE OBJECTIVE MONITORING:

| <u>Corporate Objective</u> | | <u>Positive Impact</u> | <u>Neutral Impact</u> | <u>Negative Impact</u> |
|-----------------------------------|---|-------------------------------|------------------------------|-------------------------------|
| 1 | Creating a Learning Community | √ | | |
| 2 | Creating Safe Communities | √ | | |
| 3 | Jobs and Prosperity | √ | | |
| 4 | Improving Health and Well-Being | √ | | |
| 5 | Environmental Sustainability | √ | | |
| 6 | Creating Inclusive Communities | √ | | |
| 7 | Improving the Quality of Council Services and Strengthening local Democracy | √ | | |
| 8 | Children and Young People | √ | | |

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

Communities and Local Government
Local Government Finance Formula Grant Distribution Consultation Paper (July 2010).

1 Background

- 1.1 The Department for Communities and Local Government (DCLG) have issued a consultation paper for the formula grant (colloquially – Revenue Support grant) distribution process from 2011/12 onwards. Responses are required to be sent to the DCLG by 6 October.
- 1.2 This report appends:
 - the detailed technical analysis of the proposals and alternative options set out by DCLG (Appendix 1);
 - a separate annex relating to Concessionary Travel (Annex A); and
 - the Council's proposed response to the specific questions posed by DCLG (Annex B).

2 Issues of Note

- 2.1 The information contained in the attached appendix and its annexes is of a highly technical nature and until the grant settlement is finalised the actual impact upon the Council's financial position will not be known. However, Members' attention is drawn to a number of areas which, if the DCLG does implement its proposals, would mean significant reductions in the grant receivable by the Council in 2011/12 and later years.
- 2.2 Annex A details the diverse proposals relating to Concessionary Travel. However, the main change is to transfer responsibility for concessionary travel in two-tier areas from Districts to County Council but in making this change the funding will, in part, shift from a Special Grant to Formula Grant. In Merseyside the Transport Authority received the Special Grant but from 2011/12 the Merseyside Districts will receive extra Formula Grant and work is underway to examine whether the grant can be transferred to the Transport Authority via the levy mechanism. The wider impact for Sefton however, shows diverse proposals in grant terms ranging from a gain of £0.124m to a loss of £3.512m.
- 2.3 Of the proposals solely affecting the Council, the first relates to data used in the Children's Services formula. The DCLG propose to change the basis from the current, children of income support/income based jobseekers allowance claimants, to the proportion of people aged 18 and under who are in out of work families receiving Child Tax Credits. Further work is being undertaken by the Merseyside Finance Technical Officers' group to try and compile arguments against the proposal, as this would be a major adverse change for all the Merseyside authorities; the potential loss of grant for Sefton is £3.262m.
- 2.4 The next most significant potential changes relate to the Environmental, Protective and Cultural Services Block. Firstly, DCLG propose to change the factor relating to Coast Protection from that based upon actual expenditure to one based upon Geographical Information Systems which if implemented would see grant reduction for the Council of £1.579m. Secondly, DCLG are proposing to replace the day visitor indicator with a foreign visitor-night

indicator (this also has a minor negative impact upon the Council's Highways Maintenance factor) which has the potential to reduce our grant by £0.689m. Members' attention is drawn to the responses to questions 11 and 13 respectively on these two issues.

- 2.5 As mentioned in previous reports, the DCLG are also investigating proposals to update the population figures. Sefton's forecast population is falling in comparison to the figures currently used in the formula. As a result, there is a risk of a significant adverse impact on Sefton's Formula Grant.
- 2.6 The responses to the Government proposals will be considered by the DCLG; the results of which will be announced through the Spending Review. The high level picture of Formula Grant for local government is expected on 20 October, however, the detailed picture for Sefton is likely to be released a few days after this date.

3 Issues for Members

- 3.1 The consultation paper contains some significant implications for the Council's external funding for the coming financial years which if implemented would see massive reductions in Revenue Support Grant that would exacerbate its financial position further.
- 3.2 The Council is a well performing, low spending but low resourced authority. Members are urged use their best endeavours in all forums and whenever possible to lobby against these adverse potential changes proposed in the DCLGs consultation paper and continue to do so after the consultation deadline of 6 October.

4 Recommendations

- 4.1 That the response contained in Annex B be submitted to the DCLG on the Council's behalf.
- 4.2 That the report be copied to all Members of Council for their information and for their use in lobbying on the Council's behalf against the proposals at every opportunity.

**Local Government Finance Formula Grant Distribution Consultation Paper
(July 2010).**

1. Background

- 1.1 The Department for Communities and Local Government launched a public consultation on options for change to the Formula Grant system on 28th July 2010.
- 1.2 Members are reminded that Formula Grant is the term used for Central Government determined Local Government funding and incorporates both Revenue Support Grant (RSG) and the local share of the National Business Rates Pool (NNDR). Formula Grant currently finances 51.5% of Sefton's net budget requirement and, consequently, changes to the method of allocation can have significant implications for Council Tax levels.
- 1.3 The Formula Grant system was last reviewed in 2007. The formulae have remained unchanged during the three year settlement period 2008/09 to 2010/11. During that time Government have undertaken a review of the formula grant distribution system through the Settlement Working Group. The main aim of the review has been to update and fine tune the existing system.

2. Consultation on Formula Grant Distribution

- 2.1 Following the work undertaken by the Settlement Working Group the Department for Communities and Local Government (CLG) have published a consultation paper that considers options for change in each of the components of the grant distribution system. These include changes to some of the relative needs formulae, the balance between relative needs and relative resources, and possible improvements to the data used in the formulae.
- 2.2 The main changes proposed in the consultation paper are noted below: -
 - (a) **Social Services for Older People:** The Low Income Adjustment (LIA) is the top-up in the older peoples' social services formula which takes account of local authorities' differing ability to raise income from fees and charges. The current LIA was derived using local authority income and expenditure data from 2005/06. The consultation proposes updating the LIA, so that it is based the latest available data from 2008/09 (Option OPPSS1).
 - (b) **Highways Maintenance:** The current Highways Maintenance formula is based on regression against past expenditure using the average from 2003/04 to 2005/06. The consultation proposes updating the formula using latest available expenditure data from 2006/07 to 2008/09 (Option HM2). The consultation also proposes removing the Day Visitors

component from the Daytime Population per km indicator used in Highway Maintenance formula. This is because the day visitors data used in the indicator is now 20 years old and no consistent reliable source of day visitor data is currently available to update this indicator (Option HM1).

- (c) **Replacing the Day Visitor Indicator:** Both the District-level and County-level Environmental, Protective and Cultural Services (EPCS) blocks contain an additional population top-up based on the number of net in-commuters and day visitors to the area. The current day visitor data is based on surveys undertaken in 1998/99 and 1991. The CLG believe that this data is no longer fit for purpose due to the fact that it is now 20 years old. As there is no consistent reliable source of day visitor numbers is currently available the consultation proposes replacing the day visitors indicator with a foreign visitor night indicator in the District-level and County-level EPCS blocks (Option EPCS1).
- (d) **Flood Defence:** The current flood defence formula is based on actual expenditure data provided by local authorities in their annual revenue outturn returns averaged over a three-year period. The consultation proposes moving to a new formula based on an assessment of need based on Geographical Information Systems (GIS) analysis of the length of ordinary watercourses not covered by an internal drainage board (Option EPCS2).
- (e) **Coast Protection:** The current coast protection formula is based on actual expenditure data provided by local authorities in their annual revenue outturn returns averaged over a three-year period. The consultation proposes moving to a new formula based on an assessment of need based on three GIS-based indicators: weighted properties at risk, length of erodible coastline and length of defended erodible coastline (Option EPCS3).
- (f) **Area Cost Adjustment:** The Area Cost Adjustment (ACA) is a factor included in the relative needs formulae to reflect the fact that costs are higher in some parts of England than in others. It is made up of two components: (1) the Labour Cost Adjustment (LCA) and (2) the Rates Cost Adjustment (RCA). The consultation proposes updating the weight given to the LCA using an evidence based approach to determining the labour share of third party contractors rather than the judgement based approach used previously (Option ACA1). This reduces the weights given to the LCA in a number of the formulae blocks.
- (g) **Scaling Factor used in the Central Allocation Block:** The Central Allocation Block distributes money on a per head basis based on the services an authority provides. The consultation proposes adjusting the scaling factor used in the Central Allocation Block so that it is equal to 1.00. This can be achieved by reducing the control total for the Central Allocation block and increasing the control total used in either the Relative Resources Block (CAS1) or the Relative Needs Block (CAS2).
- (h) **Floor Damping Levels:** The consultation considers whether the floor damping levels used in the formula grant distribution model should be set

close to the average change in funding or set at a lower level so that it allows more of any formula change to come through for authorities above the floor.

- (i) **Concessionary Travel Transfer:** From 1 April 2011 responsibility for concessionary travel in two-tier areas will move from the district councils to the county councils. At the same time the CLG also intend to transfer the Concessionary Travel Special Grant (which is currently paid directly to the Transport Authority) into Formula Grant. The consultation proposes four options for removing concessionary travel from the district-level EPCS formula (Options CONCF1 to 4) and six options for adding concessionary travel to the county-level EPCS formula. In total there are 24 potential concessionary travel combinations. However, due to resource constraints the CLG have chosen to exemplify only 6 of the possible combinations (Options CONCF5 to 10) in the consultation paper.
- (j) **Employment and Support Allowance Data:** Recent changes in the benefit system have seen the introduction of the Employment and Support Allowance (ESA). Since the 27 October 2008, ESA has been introduced to help people with an illness or disability move back into work. The Department for Work and Pensions (DWP) have recommended that in future, the ESA data is used along with the Incapacity Benefit and Severe Disablement Allowance data within the district-services and county-services EPCS formulae. The CLG intend to implement this change but are not currently able to exemplify this option.
- (k) **Incapacity Benefit and Severe Disablement Allowance indicator:** The current Incapacity Benefit and Severe Disablement Allowance (IBSDA) indicator used in the district-services and county-services EPCS formulae is a three-year average based on annual data as at August each year. Quarterly data is now available, and so the CLG propose to use this data rather than the annual data to form the three-year average (Option DATA1).
- (l) **Replacing the Children of Income Support Claimants Indicator:** The 'children of income support/income based jobseekers allowance claimants' (ISKID) indicator used in the Children's Services Formulae has not been updated since the 2004/05 settlement, following the introduction of child tax credits. As this data is no longer available, the consultation proposes using the proportion of people aged 18 and under who are in out-of-work families receiving Child Tax Credit as a direct replacement of the current ISKID indicator (Option DATA2).
- (m) **Student Exemptions and the Council Taxbase:** The taxbase used in the Relative Resources Block of the Formula Grant Distribution model is adjusted for the average number of student exemptions calculated using data recorded in May and in early October. The consultation proposes using student exemptions data recorded in May only.

(n) **Secondary School Pupils in Low Achieving Ethnic Groups Indicator:**

The indicator of secondary school pupils in low achieving ethnic groups is used in the Youth and Community formula. The CLG propose updating the definition of secondary school pupils in low achieving ethnic groups based on the latest attainment data (Option DATA4).

2.3 The table below shows the impact of the each of the options for change (except for the concessionary travel options) on Sefton's Formula Grant before the application of floor damping based on the 2010/11 Settlement.

| <u>Block / Formula / Factor</u> | <u>Proposed Change</u> | <u>Option</u> | <u>Change £000</u> |
|---------------------------------|---|------------------------|--------------------|
| Older People's PSS | Updating the low income adjustment | OPPSS 1 | 0 |
| Highway Maintenance | Removing the day visitor indicator | HM1 | -16 |
| | Using the latest expenditure data | HM2 | -16 |
| EPCS | Replacing the day visitor indicator with a foreign visitor night indicator | EPCS1 | -689 |
| | Moving to a new needs based Flood Defence formula | EPCS2 | -66 |
| | Moving to a new needs based Coast Protection formula | EPCS3 | -1,579 |
| Area Cost Adjustment | Updating the weight given to the Labour Cost Adjustment component | ACA1 | +824 |
| Central Allocation Block | Reducing the control total used in the Central Allocation Block and either: - increasing the control total used in the Relative Resources Block - increasing the control total used in the Relative Needs Block | CAS1 or CAS2 | -305 +302 |
| Data | Using quarterly rather than annual Incapacity Benefit and Severe Disablement Allowance data | DATA1 | -23 |
| | Using 'the proportion of people aged 18 and under who are in out-of-work families receiving Child Tax Credit' as a direct | DATA2 | -3,262 |

| | | | |
|--|--|-------|-----|
| | replacement for the current 'children of income support/income based jobseekers allowance claimants' indicator data. | | |
| | Adjusting the council taxbase using student exemptions data recorded in May only. | DATA3 | -70 |
| | Updating the definition of low achieving ethnic groups used in the Youth and Community formula | DATA4 | 11 |

- 2.4 The table shown above excludes the impact of the proposed concessionary fares transfer. Further details of the proposed transfers are provided in Annex A together with tables showing the exemplified impact on Sefton's formula grant as provided within the consultation (these range from -£3.512m to +£0.124m).
- 2.5 The combined affect of the proposals for change to Formula Grant Distribution could result in a significant reduction in Sefton's share of formula grant. The largest reduction in Sefton's Formula Grant would come from the proposed new coast protection formula and the replacement of the 'children of income support/income based jobseekers allowance claimants' indicator data. If these two changes are not implemented the combined effect of the other proposals would be fairly neutral.
- 2.6 The exemplifications provided are only indicative and do not reflect the cumulative impact the changes could have on the 2011/2012 Settlement. The CLG are still refining some of the options so the actual outcome may change. The consultation also asks for alternative proposals for areas of change. Other authorities and their representative groups may put forward alternative proposals for consideration in order to limit their losses or improve their gains.
- 2.7 The figures presented were modelled by the CLG based on the 2010/2011 Settlement and do not in the main reflect the updated local or national data that could be used to calculate the 2010/2011 Settlement.
- 2.8 It is worth noting that Sefton's indicative formula grant was £4.0m above the funding floor in 2010/11 and this was scaled back by £2.8m to £1.2m to pay for the funding floor. As a result, a reduction in raw grant of £1m would have led to a reduction of only £0.3m in the actual cash received, so the impact of the proposed changes would not have a pound for pound impact on Sefton's formula grant after damping is applied.
- 2.9 Other factors that will affect the overall level of grant received in 2011/2012 include: -

- (a) the outcome of the Spending Review which is expected to be published in October 2010.
 - (b) the impact of any transfers of funding to/from specific grants from/to formula grant, or the introduction of any new functions or responsibilities to be funded through formula grant.
 - (c) the impact of the Office for National Statistics Improving Migration Population Statistics (IMPS) Project on the population estimates. The improvements have fed into the 2008-based Subnational Population Projections and the mid-2009 population estimates which could be used in the 2011/2012 settlement.
 - (d) the level of the funding floor to be set for 2011/2012.
- 2.10 The consultation paper contains 29 questions and local authorities are asked to submit their responses by 6 October 2010. It is important that the Council responds to the consultation in order to support those proposals that make the formula fairer, recognise real spending needs and improve Sefton's financial position in the long term.
- 2.11 An initial draft response has been prepared on behalf of the Council and is attached at Annex B. This provides arguments for or against the various proposals made in the consultation, however, further work is still being undertaken in order to develop arguments to support our response to some of the questions. The aim of the response has been to identify and support those changes that improve credibility of the system, make the formula fairer and appear to be in the best interest of the Council in securing adequate external funding in the future.
- 2.12 A joint Merseyside response to previous consultations has achieved a positive response from Ministers. The Treasurers of the six Merseyside Authorities (including Halton) are currently finalising a Merseyside wide response to the consultation that highlights those areas of common interest. The final response will be sent separately to the CLG.

Transfers and Adjustments: Concessionary Travel

From 1 April 2011 responsibility for concessionary travel in two-tier areas will move from the district councils to the county councils. The amount of grant transferred is likely to be decided during the Spending Review. For the purposes of the exemplifications the CLG have used the 2008/09 Net Revenue Expenditure for Concessionary Travel i.e. £813.388 million.

The CLG also intend to transfer the Concessionary Travel Special Grant (which is currently paid directly to the Transport Authority) into Formula Grant from 1 April 2011. The Passenger Transport Authority are currently looking at how this can be dealt with through the levying mechanism and the financial implications for Sefton have yet to be determined.

The consultation paper discusses options for:

- Removing concessionary travel from the district-level EPCS RNF
- Adjusting the base position for lower-tier authorities
- Adding concessionary travel to the county-level EPCS RNF
- Adjusting the base position for upper-tier authorities

Removing concessionary travel from the district-level EPCS RNF

The Budget 2005 announced a free concessionary bus fare scheme for people aged over 60 and disabled people, which was funded by an extra £350 million added to formula grant in 2006/07. This led to increased weightings on population density, pensioners on income support and incapacity benefit/severe disablement allowance being used within the district-level EPCS RNF in 2006/07.

The consultation suggests that because support for concessionary the fares scheme is being removed from district-level EPCS RNF, then the additional weightings used from 2006/07 onwards should be reversed.

The consultation proposes either leaving the district-level EPCS formula unchanged (used in Options CONCF1 and CONCF2) or reverting to weightings used in the 2005/06 district-level EPCS formula (used in Options CONCF3 and CONCF4)

Adjusting the base position for lower-tier authorities

Because responsibility for administering the concessionary travel scheme is transferring from district-councils (lower-tier authorities) to county-councils (upper-tier authorities) the baseline used for floor damping in lower-tier authorities will need to be reduced.

The consultation proposes adjusting the base position using the 2008/09 Concessionary Travel Net Revenue Expenditure (used in Options CONCF1 and CONCF3) or adjusting the base position pro rata to the district-level EPCS formula (used in Options CONCF2 and CONCF4)

Adding concessionary travel to the county-level EPCS RNF

Three basic options have been considered for modifying the county-level EPCS RNF. The first two options are based on regressions against past expenditure (the 2008/09 Concessionary Travel Net Current Expenditure) and the third is based on regression against the estimated concessionary travel trips data. The modifications proposed are shown below:

| First Formula | | Used in Option CONCF5 and CONCF6 |
|----------------------|--|---|
| Basic Amount | | 1.3006 |
| Deprivation Top-up | | 17.5151 x Income Support/Income Based Jobseekers Allowance / Guarantee element of Pension Credit Claimants; minus 3.3142 x Wealthy Achievers |
| Car Ownership Top-up | | 3.1365 x Sick and Disabled People in Households with no Car or Van |

| Second Formula | | Used in Option CONCF7 and CONCF8 |
|-----------------------|--|--|
| Basic Amount | | 1.4533 |
| Density Top-up | | -2.5719 x Population Sparsity for People Aged 60 and Over |
| Deprivation Top-up | | 17.1294 x Incapacity Benefit and Severe Disablement Allowance |
| Car Ownership Top-up | | 5.1353 x People Aged 60 and Over with no Car or Van |

| Third Formula | | Used in Option CONCF9 and CONCF10 |
|----------------------|--|--|
| Deprivation Top-up | | 22.8808 x Country of Birth of Residents; minus 3.3142 x Wealthy Achievers |
| Car Ownership Top-up | | 6.8381 x Sick and Disabled People in Households with no Car or Van |

Adjusting the base position for upper-tier authorities

There are two parts to the transfer into the county-level EPCS. The first part reflects the Net Revenue Expenditure which is being transferred from the district-level EPCS and the second part reflects the transfer of the concessionary travel special grant into formula grant.

For the transfer from the districts, the CLG believe that the adjustment to the base position for the county councils should simply be the same as the transfer from the shire districts, summed where appropriate.

For the transfer from special grant there are two options – adjusting the base position by the allocation of the special grant (used in Options CONCF5, 7 and 9) or adjusting the base position pro-rata to the new concessionary fare formula (used in Options CONCF6, 8 and 9).

Exemplifications

The consultation presents four options for removing concessionary travel from the district-level EPCS formula (Options CONCF1 to 4) and six options for adding concessionary travel to the county-level EPCS formula . In total there are 24 potential concessionary travel combinations. However, due to resource constraints the CLG have chosen to exemplify only 6 of the possible combinations (Options CONCF5 to 10) in the consultation paper. These are all based on lower-tier transfer option CONCF3 (using the 2005/06 district-level EPCS formula and adjusting the base position for lower-tier authorities using the 2008/09 Concessionary Travel Net Revenue Expenditure). Using option CONCF4 would give the same result for Sefton. However, adopting lower-tier transfer option CONCF1 or CONCF2 would result in Sefton's formula grant being £0.817m higher than the amounts exemplified below..

The following options have been exemplified:

- Option CONCF5: Using the first formula and adjusting the base position for the Special Grant transfer by the 2009/10 Special Grant allocation.
- Option CONCF6: Using the first formula and adjusting the base position for the Special Grant transfer prorata to the new concessionary travel formula.
- Option CONCF7: Using the second formula and adjusting the base position for the Special Grant transfer by the 2009/10 Special Grant allocation.
- Option CONCF8: Using the second and adjusting the base position for the Special Grant transfer prorata to the new concessionary travel formula
- Option CONCF9: Using the third formula and adjusting the base position for the Special Grant transfer by the 2009/10 Special Grant allocation.
- Option CONCF10: Using the third formula and adjusting the base position for the Special Grant transfer prorata to the new concessionary travel formula.

| <u>Exemplification</u> | CONCF5 | CONCF6 | CONCF7 | CONCF8 | CONCF9 | CONCF10 |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Before Floor Damping | Change £ million | Change £ million | Change £ million | Change £ million | Change £ million | Change £ million |
| Sefton | -0.819 | -0.819 | 0.124 | 0.124 | -3.512 | -3.512 |

Sefton Council

Response To The Formula Grant Distribution Consultation Paper

Introduction

This document sets out the response of Sefton Metropolitan Borough Council to the Government's consultation on Formula Grant Distribution. It addresses a number of specific questions raised in the consultation paper. Our response to those questions is as follows:

Chapter 3: Adults' Personal Social Services

Question 1: Do you agree that we should update the Low Income Adjustment (OPPSS1)?

Agree.

We believe that the most up-to-date information available should be used in determining grant allocations, provided that the data is both accurate and appropriate.

Sefton therefore supports Option OPPSS1 as this is based on the latest available expenditure data.

Chapter 6: Highways Maintenance

Question 9: Do you agree that the daytime visitors component of daytime population per km should be removed (Option HM1)?

Disagree.

We agree that the day visitor data is out of date. However, we believe that it should be updated to reflect the current number of day visitors to each area. The latest Scarborough Tourism Economic Activity Monitor (STEAM) data from 2008 indicates that day visitor numbers to our area have increased by more than 10% since 2007 and are more than double the number used in the relative needs formula.

The proposed removal of the daytime visitors component would result in a reduction in funding for Sefton at a time when our funding should be increasing as a result of increased visitor numbers. In the absence of more up-to-date data we think it would be preferable to retain the old data rather than remove this component from the formula.

There are examples of older data continuing to be used in the formula. For example the 'number of days with snow lying' also used in the highways maintenance formula is based on data recorded between 1978 and 1990. There are no proposals to update this data despite recent evidence of climate change.

Removing the day visitor component whilst retaining the overnight visitor night component would skew the highways maintenance formula in favour of those areas that have high numbers of domestic and foreign overnight visitors, whilst disadvantaging those areas like Sefton that attract a large number of domestic day visitors.

If the Government decide to remove the day visitor component from the daytime population per km indicator then the overnight visitors component should also be removed to rebalance the formula.

Question 10: Do you agree that the expenditure data used to determine the coefficients should be updated (Option HM2)?

Agree.

We believe that the most up-to-date information available should be used in determining grant allocations.

Sefton therefore supports Option HM2 as this is based on the latest available expenditure data.

Chapter 7: Environmental, Protective and Cultural Services

Question 11: Do you agree that foreign visitor nights is a suitable replacement for day visitors in the district-level and county-level EPCS RNFs (Option EPCS1)?

Disagree.

We agree that the day visitor data is out of date. However, we do not believe foreign visitor nights is a suitable replacement for day visitors in the district-level and county-level EPCS RNFs.

The foreign visitors nights data is based on information from the International Passenger Survey and it is skewed towards areas served by large international airports. The exemplifications provided with the consultation support this statement as they show that using foreign visitor nights data would result in a large shift of resources to the London Area. The London Area would gain £60.7m of additional funding, whilst Metropolitan Areas and Shire Districts would lose £18.7m and £42m respectively as a result of the proposed change.

It is surprising that the Government are proposing a formula change that reduces funding for tourist areas outside of London at a time when the Prime Minister has been talking about just how important the tourism industry is to the economy and what we need to do now to make the most of it not just in London but right across the country. He recognised in his speech on 12 August 2010 that tourism is not just a great export earner, but there is also a huge domestic market too.

We know that in terms of visitor numbers to our area that a huge majority of our business is from day trips. Most of this is from the domestic market and this

generates costs for public services. The proposed change to the formulae results in a reduction in our Formula Grant at a time when the latest Scarborough Tourism Economic Activity Monitor (STEAM) data from 2008 indicates that day visitor numbers to our area have increased by more than 10% since 2007 and they are more than double the number used in the relative needs formula.

The argument for using more up-to-date, but less relevant data is weak as it does not achieve the objective of that the day visitors indicator was designed for. The shift to using foreign visitor nights fails to recognise the huge domestic market highlighted in the PM's speech and the costs that this imposes on local services.

There are examples of older data continuing to be used in the formula. For example the number of days with snow lying used in the Highways Maintenance formula is based on data recorded between 1978 and 1990. Even the foreign visitor nights data used in the formula is dependant on 1991 census data.

It would preferable to retain the current relevant but out-of-date data rather than adopt data that is not relevant and clearly favours areas that have a large number of international visitors staying overnight rather than those that attract domestic visitors from neighbouring authorities for day visits.

We understand that Visit England working through a group called the English Tourism Intelligence Partnership have been working on the issue of tourism statistics and that they intend to conduct a new day visitor survey in 2011 for release in 2012. Given that the Government have signalled their intention to carry out a review of local government finance it would appear sensible to retain the current day visitor indicator data for the 2011/12 Settlement and consider using new day visit data if this remains appropriate once the review of local government finance has been completed.

Question 12: Do you agree that the new GIS-based flood defence formula should be used (Option EPCS2)?

Disagree.

We have the following concerns over the formula suggested:

As a local authority we have constructed defences under the Land Drainage Act and these are classed as defences against tidal flooding – there is no relationship between these defences and the length of ordinary watercourses. It is not clear whether or not these defences have been accounted for within the proposed formula.

Question 13: Do you agree that the new GIS-based coast protection formula should be used (Option EPCS3)?

Disagree.

We have a number of concerns over the formula suggested:

1. The focus on property at risk of erosion will concentrate resources on dealing with properties at risk rather than avoiding properties coming into that category. Risk equals likelihood times significance, property at risk concentrates on areas where both likelihood and significance are high but the best approach to managing risk would be to intervene before this stage by preventing development that leads to high significance. This bias could be rebalanced through the formula taking into account the spatial area at risk of erosion which can be derived from the National Coastal Erosion Risk Mapping or the Shoreline Management Plans.
2. Length of erodible coastline provides an indication of the scale but in one dimension only, we would suggest that inclusion of the rate of erosion would be more representative. This can be derived from the National Coastal Erosion Risk Mapping or the Shoreline Management Plans.
3. Length of erodible coastline and defended erodible coast takes into account the length of risk area and accounts for the hard defence assets but does not account for soft defences i.e. those areas of sand dunes owned and managed by the local authority for coast protection purposes. Assets are detailed within the National Flood and Coastal Defence Database.
4. DEFRA's objectives seek to enhance environmental aspects where possible but there is no bias in the formula to reflect this. This could be addressed through use of site designations such as Site of Special Scientific Interest (SSSI) or Special Area of Conservation (SAC) / Special Protection Area (SPA).

Chapter 8: Area Cost Adjustment

Question 14: Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA 1)?

Agree.

We support the proposed new evidence based approach to determining the labour share of third party contractors. We agree that this is an improvement judgement based approach used previously.

Chapter 10: Scaling Factor

Question 15: Do you think that the scaling factor for the central allocation should be close to one, so that equal importance is attached to the amounts above and below the minima?

Yes.

Question 16: If so, would you prefer Ministers to be able to set judgemental weights for the Relative Needs Amount, as in option CAS1, or the Relative Resource Amount, as in option CAS2?

Option CAS2.

We support option CAS2 as this places a greater emphasis on relative needs within the formula.

As stated in our response to previous consultations we support resource equalisation and believe that this should occur on a regular basis in line with three-year settlements. However, such changes should be based on evidence and reflect the changes required to ensure that the relative needs formula and relative resources calculations adequately reflect the patterns of spending and spending pressures faced by local authorities and their relative abilities to raise income locally. Changes should not be based purely on judgement.

Such changes should follow the pattern of equalisation adjustments already established in previous settlements. The Relative Needs Amount should be increased with a compensating change made to the Relative Resources Amount. This type of change was demonstrated in Option 1 from paper SWG/07/47.

Chapter 11: Floor Damping Levels

Question 17: Over the next Spending Review period do you think that the floor level should be set close to the average change or such that it allows some formula change to come through for authorities above the floor?

Close to the average.

The Government have already indicated that public spending will be reduced by 25% in real terms over the next Spending Review period. The Government have also announced that they wish to work with local authorities to deliver a council tax freeze in 2011/12.

Councils have indicated (through the LGA) their willingness to work with the Government to help deliver savings. However, it will be impossible for local authorities to deliver the Government's ambition of a council tax freeze in 2011/12 without stability in the local government finance system.

Floor damping provides stability in the formula grant distribution model. The closer the floor level is set to the average change the greater the level of stability. For this reason we believe that the floor level should be set close to the average change.

Chapter 12: Transfers and Adjustments

Question 18: Which of the four options for removing concessionary travel from lower-tier authorities do you prefer (CONCF1, CONCF2, CONCF3, CONCF4)?

CONCF1

Further work is being undertaken to develop an argument to support this response.

Question 19: Which of the six options for rolling in concessionary travel to upper-tier authorities do you prefer (CONCF5, CONCF6, CONCF7, CONCF8, CONCF9, CONCF10)?

CONCF7

It is important that Metropolitan Districts are not disadvantaged as a result of the proposed administrative change in two tier areas. Based on the exemplification provided with the consultation options CONCF 7 and CONCF 8 are the only options presented that would ensure that all Metropolitan Districts on Merseyside are not adversely affected by the proposed transfer.

We also believe that the exemplifications of options CONCF 9 and CONCF 10 show a redistribution of funds to the London Area that simply cannot be justified as the result of an administrative change in another tier of local government.

We would prefer that the proposed transfer of the Concessionary Travel Special Grant into Formula Grant did not go ahead, as the pattern of distribution within the Formula Grant block cannot match the distribution of the current grant or match levy payments required by our Passenger Transport Authority.

Question 20: Should concessionary travel have its own sub-block?

In principal we would have no objection to a separate concessionary travel sub-block being incorporated in the formula, as it would make it easier to target funding for this specific area. However, the consultation paper does not provide sufficient information on the impact of this proposal to draw a conclusion.

Question 21: Do you agree with the methodology for adjusting the base position for unadopted drains?

No.

The consultation indicates that the funding for unadopted drains will be transferred from the lower-tier EPCS block. The number of properties in each authority is not an indicator used in this block and it is therefore not appropriate to use this data to adjust the base position. The main driving factor in the determining the distribution of this block is population. So we would prefer that the base position is adjusted using the 2009 mid-year population estimates or alternatively the latest population projections for 2011/12.

Chapter 13: The Incapacity Benefit and Severe Disablement Allowance indicator

Question 22: Do you agree that the incapacity benefit and severe disablement allowance indicators should use quarterly data rather than annual data (DATA1)?

Agree.

We support the proposed change as it allows the use of the latest available data.

Chapter 14: Replacing the Children's Income Support Benefit Indicator

Question 23: Do you agree that children in out-of-work families receiving Child Tax Credit (CTC) should replace the current children of IS/(IB)JSA claimants (DATA2)?

Disagree.

Further work is being undertaken to develop an argument to support this response.

Chapter 15: Student Exemptions and the Council Tax Base

Question 24: Would you prefer that May data only is used for the student exemptions adjustment in the taxbase projections (DATA3)?

No.

Data provided to the SWG in Annex A of paper SWG-09-40 based on Manchester's records of student exemptions showed that student exemptions peaked in June and were at their lowest in January. The chart clearly illustrated that using May only data would overestimate the average number of student exemptions for the year.

On the basis of the data provided by Manchester it would appear that using the average of January and June data would provide a better picture of the average number of student exemptions. Although this would need to be tested against the exemption profiles in other authorities.

Assuming that it is not possible to use January and June data, we prefer the continued use of both October and May data as this is likely to provide a more accurate picture of the average number of student exemptions given in the year.

Chapter 16: Updating data on low achieving ethnic groups

Question 25: Do you agree that the new definition of secondary school pupils in low achieving ethnic groups should be used (DATA4)?

Yes.

Whilst we support the proposed update of the definition of 'secondary school pupils in low achieving ethnic groups', we would prefer to see this indicator removed from the formula as we believe the formula should try to distribute funding to all low achieving pupils not just those in specific ethnic groups.

ANY OTHER COMMENTS

Do you have any alternative proposals?

1. The current 'Social Services for Older People' relative needs formula was introduced in the 2006/07 settlement. The formula recognises that the cost of care is much higher for those aged 90 and over and provides a top-up for this age range. At the time that the current formula was introduced the Government also considered using an alternative formula that was based on detailed analysis of what factors might be related to the need for care. The formula developed from this analysis included two age related top-ups one for residents aged 80 to 84 and another for residents aged 85 and over. This was option SSE1 in the 2005 Formula Grant Consultation. This option was withdrawn at the consultation stage as it was decided that the sample used to derive the formula was not statistically robust enough. Sefton has a higher than average elderly population and we find that the demand for social services increases rapidly once people reach 80 years old. We would like to see the Department of Health revisit the research undertaken on option SSE1 and develop a formula that better reflects the increased demand for social services in the 80 to 89 age group.
2. Population projections were first used in 2006/07 Settlement when multi-year settlements were introduced. We believe that the use of population projections are flawed and do not match the real movements in population. If the Government are considering scrapping multi-year settlements or reducing the number of years covered by the next settlement then we believe the latest mid-year population estimates should be used in the formulae rather than the projected figures.
3. The current area cost adjustment uses both public and private sector pay information. The private sector pay information includes the salaries of employees who earn far in excess of any public sector employee employed by an English Local Authority. We believe that the area cost adjustment should be based purely on public sector pay as salaries differ by much lower margins than in the private sector. However, if the Government continues to take account of private sector pay then pay data relating to any employee paid in excess of £150,000 per annum should be excluded from the area cost adjustment. This would fit with the Government's own policy to discourage excessive pay in the public sector.

Do you have any other comments?

In order to assist local authorities in managing the forthcoming reductions in local government spending. We believe that stability should be the key consideration in deciding what changes should be made to the Formula Grant Distribution.