



Haringey Council

Agenda item:

Cabinet

14 September 2010

Report Title: **Local Government Finance Formula Grant Distribution – Consultation Paper**

Forward Plan reference number:

Report of: **Director of Corporate Resources**

Wards(s) affected: **All**

Report for: **Key decision**

1. Purpose

1.1 To inform Members of the potential financial implications arising from the Formula Grant Distribution Consultation Paper and to set out the Council's response to the Consultation Paper issued by CLG on 28 July 2010.

2. Introduction by Cabinet Member for Finance and Sustainability (Cllr J. Goldberg)

2.1 It is most important that the Council submits a robust response to the Local Government Finance consultation and makes sure its voice is heard particularly around proposed changes to Area Cost Adjustment that could impact negatively on the Council's finances. I ask colleagues to support the submission of the consultation response as set out in this report.

3. Recommendations

3.1 To delegate to the Lead Member for Finance and Sustainability approval of the final submission of the Council's consultation response to be made to CLG by 6th October 2010.

Report Authorised by: **Director of Corporate Resources**

J. Pawker 3/9/10

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4. Executive Summary

4.1 The Local Government Finance Formula Grant Distribution consultation paper was issued by Communities and Local Government (CLG) on 28 July 2010. This is an important consultation requiring comprehensive analysis and interpretation as it will form the basis of Formula Grant distribution over the next few financial years (at least 2011/12), following the Government's Comprehensive Spending Review in October 2010.

4.2 Local Authorities are asked to contribute their responses by 6 October 2010. Haringey Council's response is currently being compiled and the final response will be submitted to CLG by the due date, once approved by the Lead Member.

5. Reasons for any change in policy or for new policy development (if applicable)

5.1 The Formula Grant Distribution will have an impact on the Council's financial planning policy aspirations and is, therefore, a key element of the overall strategic planning for the Council.

6. Local Government (Access to Information) Act 1985

6.1 Formula Grant Distribution Consultation Paper – 28 July 2010

7 Introduction

7.1 The Local Government Finance Formula Grant Distribution consultation was issued by Communities and Local Government (CLG) on 28 July 2010. This is an important consultation requiring comprehensive analysis and interpretation as this will form the basis of Formula Grant distribution over the next few financial years (at least 2011/12), following the Government's Comprehensive Spending Review in October 2010.

7.2 Local Authorities have been asked to contribute their responses by 6 October 2010. A response on behalf of Haringey Council is currently being compiled and will be submitted to CLG by this date, once approved by the Lead Member.

7.3 This report provides a summary of the proposals and highlights the most significant changes that affect Haringey.

8 Overview

8.1 The Formula Grant Distribution consultation and the changes proposed within it are extremely important as they will directly affect the amount of formula grant the Council will receive from 2011/12 onwards. The consultation is also being undertaken in a period

of unprecedented reductions in public expenditure recently announced by the Government which will have significant consequences for services delivered by the Council.

- 8.2 The Formula Grant Distribution system is extremely complicated and is perceived to be fundamentally flawed in its intentions to fairly distribute grant amongst all local authorities. The Council has previously raised serious concerns with various datasets used within the system, the main areas of concern being the Area Cost Adjustment (ACA), Grant Floors, Population Issues, Deprivation Issues and Removal of Sub-Block Damping within Children's and Younger Adult's Personal Social Services. The consultation paper does not particularly address any of these concerns and issues. On the contrary, the proposals in respect of the ACA would see £100m of grant move from London to the rest of England. This is discussed further at paragraph 9.4 below. The Council will continue to raise these concerns and lobby the Government at every opportunity in order to get a fairer formula grant distribution system that better reflects and addresses the resource pressures faced by the Council.
- 8.3 The impact of the changes proposed in the consultation paper are illustrated by constructing exemplifications which re-run the 2010-11 allocations to indicate the effect of each option at the present time. However, the detailed effects of options in the context of the 2011-12 settlement may be very different. This is partly because, when several changes are put together into the system, the overall change is not the same as the sum of the individual changes. It is also because the Spending Review is likely to produce new lower control totals for formula grant and the various blocks within it plus new updated data may also be available and used in the final draft settlement. Furthermore, the consultation paper does not specify levels of floor damping which have a significant impact on how an authority's grant changes.

9 Summary of Implications for Haringey Council

- 9.1 This section briefly summarises the key financial implications for Haringey, from a review of the proposals contained in the Formula Grant consultation paper.
- 9.2 The consultation document contains options in respect of 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 implications of the main changes and options are indicated below.
- 9.3 **Floor Damping** – significantly, Haringey is currently below the floor level within the Formula Grant settlement for 2010/11 by £7.1m. The floor assists in ensuring that Haringey has a minimum 1.5% increase in grant compared with 2009/10. Over the next Spending Review period the consultation states it would still be possible to set a range of floor levels, including setting negative floors. The financial implication of any reduction to the current floor level of 1.5% will impact on Haringey negatively, with a corresponding reduced Formula Grant level. Proposed levels of floor damping are unspecified, Haringey would support the maximum floor damping level available. A 1%

reduction to the floor level for 2011/12 would in broad terms reduce Haringey's grant by approximately **£1.45m**.

- 9.4 **Area Cost Adjustment (ACA)** – is the element of the relative needs formulae which reflects particular variations in the costs of service delivery around the country. A change proposed to the Labour Cost Adjustment (LCA) component of ACA has a negative financial implication for Haringey Council of **£1.5m** (or 1.1%) of Formula Grant before damping. The LCA takes account of differences in pay across the country. It is calculated using local wage information from the Annual Survey of Hours and Earnings (ASHE). The consultation asks whether Councils agree with the proposal to update the weights given to the labour cost adjustment (option ACA 1). Haringey, would not benefit from the new proposed reduced LCA weights for Highway Maintenance of 40% (a 20% reduction compared with current LCA), Children and Younger Adults' Social Services of 65% (a 10% reduction), Older People's Social Services of 65% (a 15% reduction), and Environmental, Cultural and Protective Services of 60% (a 5% reduction). The main differences occur in the services which use a significant share of third party labour. Haringey will strongly argue for the existing LCA weights to be maintained at the very least. However, if the proposed change is implemented, Haringey would lose grant of **£1.5m**. The second element within the ACA is the Rates Cost Adjustment (RCA), which reflects the differences in the cost of business rates on council premises across the country. There are no proposals to make any changes to the RCA methodology.
- 9.5 Overall proposed changes to the ACA means **£100m in un-damped grant** being redistributed away from London to the rest of England. The ACA difference from the indicative allocation before damping for London is analysed as follows: Inner London £67.3m, Outer London £27.5m, and GLA £5.7m totalling £100.5m. As indicated above this translates to an estimated reduction for Haringey of **£1.5m**.
- 9.6 Changes to the ACA also have an impact on the Council's Dedicated Schools Grant (DSG). The Department for Education (DfE) has recently consulted on a range of proposals including options for changes to the ACA element of the DSG. Following extensive research by officers and supported by independent experts from KPMG, it was concluded that the hybrid approach proposed by DfE is both logical and equitable as it recognises the unusual situation in Haringey whereby teachers are paid according to inner London pay scales yet funding is based on outer London rates. The hybrid approach recognised, in large part, the actual costs of teachers pay as opposed to the General Labour Market approach.
- 9.7 Unfortunately, whilst the vast majority (c60%) of respondents to the DfE consultation (even allowing for the significant responses from Haringey organisations and individuals) agreed with the hybrid approach, the DfE concluded that it will be continuing its 'spend plus' methodology at least for 2011-12 and so will not be implementing a formulaic approach. Whilst this is disappointing it is relevant to note that, in a subsequent consultation concerned with implementing a 'pupil premium' the Hybrid methodology for recognising ACA differences is the sole approach being proposed. It is extremely likely that when the DfE reverts to a formula based approach for distributing DSG the hybrid ACA approach will be used.
- 9.8 **Adult Social Services** – 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. Based on the exemplifications provided this adjustment has a positive impact for Haringey and the Council therefore agrees that the adjustment should be undertaken.

- 9.9 **Highways Maintenance** – the Council supports both proposed options as the exemplifications indicate that they are financially beneficial for Haringey. The options are: Option HM1 - Removing the Day Visitors component from Daytime Population. Option HM2 - Updating the regression expenditure base.
- 9.10 **Environmental, Protective and Cultural Services** – there are three areas of proposed changes:
- (i) Replacing the day visitors' indicator with foreign visitor night indicator in the district-level and county-level EPCS RNFs. The exemplifications indicate the financial impact for Haringey to be positive by **£1.8m**;
 - (ii) Responsibility for **Concessionary Fares** is moving from district councils to county councils from 1 April 2011. This will have consequential changes for both the district-level and county-level EPCS RNFs. Funding is currently provided through both formula grant and specific grant. These changes would also have an impact on Haringey's grant position. The options exemplified to date for these changes generally have a positive financial impact for Haringey and the response supports those options that maximise grant for the Council. This perceived gain is purely a by-product of the district and county level changes and does not involve any additional expenditure for London. However, it should be noted that CLG have not to date exemplified all of the options and some may have a negative impact for the Council. The current position therefore needs to be treated with a degree of caution.
 - (iii) Proposals to remove "own spend" from the Flood Defence and Coast Protection RNFs. The financial impact for Haringey would be positive for one of the options given by **£0.1m**. Therefore this option is supported as part of the response.
- 9.11 **The Scaling Factor for the Central Allocation Block** – the distribution of formula grant takes into account the difference in needs and resources of authorities. The financial impact for Haringey would be positive for both options given, either by **£0.5m or £1.4m**. The Council will support the option which maximises the grant allocation.
- 9.12 **Data Revisions** - the EPCS formula contains an indicator relating to Incapacity Benefit and Severe Disablement Allowance. Two changes are proposed. The first is to include Employment and Support Allowance data in this indicator (not exemplified). The second is to use quarterly data rather than annual data in calculating the indicator value for each authority (option DATA1). The exemplifications indicate that there are no financial implications for Haringey from these changes.
- 9.13 The out-of-date **Income Support and Income Based Jobseeker's allowance** indicator is being replaced by Child Tax Credit data (option DATA2). This change is supported as the financial implications are positive for Haringey with an increase in grant exemplified at **£1.9m** before damping.

- 9.14 **Tax base** projections are currently revised for student exemptions from council tax based on numbers in May and October. However, many students have not registered by October. Option DATA3 shows the effect of just using October's figures. There is a positive financial impact for Haringey exemplified at **£0.3m** before damping.
- 9.15 **The Children's Services** formula uses an indicator "secondary school pupils in low achieving ethnic groups". The Government proposes to update the list of ethnic groups included in this indicator (exemplified in option DATA4). This change is supported as the financial implications are positive for Haringey exemplified at **£0.1m** before damping.

10 Conclusion

- 10.1 Haringey's response to the consultation paper provides a review of the financial implications for the Council of the new proposals contained in the Formula Grant Distribution consultation and comments on these. Positive exemplifications are provided for the majority of areas with the exception of Area Cost Adjustment. The options exemplified to date in respect of Concessionary Fares provide a positive outcome for Haringey. Generally the response supports the options which have the most beneficial financial impact for Haringey and maximise grant for the Council.
- 10.2 The response also makes a case for changing current proposals in respect of the Area Cost Adjustment, particularly in view of the research and analysis undertaken by Haringey and the proposals jointly agreed with Newham and Barking & Dagenham that would have significantly reduced the disparity in labour cost factors across London. This is particularly relevant given that the original brief given to the Settlement Working Group to 'look at options for small changes to the geography in areas that contained local authorities with large variations in their local wage costs' as London was highlighted very clearly as an area of worst fit. The Council will continue to urge the Government to review their proposals in respect of the ACA and reconsider the case made by Haringey to be classified as an inner London borough for the purposes of the ACA calculations.
- 10.3 A summary of the broad financial impact for the Council based on the changes and exemplifications provided in the consultation paper is set out in the table below. This indicates that there may be overall financial benefit from the proposed changes assuming that all of the options selected in the table below are implemented. This excludes the impact of concessionary fares as not all of the possible options being considered have yet been exemplified.

Local Authority	2010-11 Indicative Allocation (£m)	
Haringey	137.6	
	Difference from Indicative Allocation of Formula Grant Before Floor Damping	
Adult Social Services	(£m)	(%)
PSS: Updating the Low Income Adjustment		
Option PSS1	0.1	0.1%
Police - Formula Changes		
Option POL1	0.0	0.0%
Option POL2	0.1	0.0%
Fire: Updating Expenditure Data		
Option FIR1	0.3	0.3%
Option FIR2	0.3	0.2%
Option FIR4	0.2	0.1%
Highways Maintenance		
Option HM1	0.1	0.1%
Option HM2	0.2	0.1%
Environmental, Protective and Cultural Services		
EPCS - Main Formulae		
Option EPCS1	1.8	1.3%
EPCS: Flood Defence and Coast Protection		
Option EPCS2	0.1	0.0%
Scaling in the Central Allocation		
Option CAS2	1.4	1.0%
Area Cost Adjustment		
Area Cost: Reducing Labour Cost Weights		
Option ACA1	-1.5	-1.1%
Data: Update Incapacity Benefit and Severe Disablement Allowance Indicator		
Option DATA1	0.0	0.0%
Data: Replacing the Children's Income Support Indicator		
Option DATA2	1.9	1.4%
Data - Student Council Tax Exemptions		
Option DATA3	0.3	0.2%
Data: Update Low Achieving Ethnic Groups		
Option DATA4	0.1	0.0%
Concessionary fares	tba	tba

11 Comments of the Head of Legal Services

- 11.1 The Head of Legal Services indicates that there are no significant specific legal implications arising from the recommendation of this report.