

**Government Grant Options for Change**

**RSG Formula Grant Consultation Document**

A 408 page consultation paper has been circulated by the DCLG on 28<sup>th</sup> July regarding potential changes to the methodology used within the current RSG Formula Grant distribution.

The papers ask for authorities to comment on 25 potential changes with all comment to be received by 6<sup>th</sup> October.

It must be stressed that these changes are related to the current levels of Formula Grant received by authorities and takes no account of likely public expenditure reductions to be announced on 20<sup>th</sup> October.

The potential changes are summarised below and indicate in some instances the effect upon Watford/ Herts CC/ Herts Police Authority/ and a selection of other Herts Districts-- :

**Chapter 3 Personal Social Services**

(one question but no effect upon HCC –or, as you would expect Watford).

**Chapter 4 Police**

Four questions. Three have no effect upon HCC; one question has a very small adverse effect upon HCC.

All four questions have no effect upon Watford.

**Chapter 5 Fire**

Three questions. Questions one and two are very marginally better for HCC (and surprisingly £1.5k better for Watford).

Question 3 is marginally worse for HCC with no effect for Watford.

**Chapter 6 Highway Maintenance**

Two questions both of which have no effect upon HCC or Watford.

**Chapter 7 Environment, Protective and Cultural Services (EPCS)**

Three questions.

The first question wishes to change the day visitors indicator (which hasn't been changed for 20 years—and for which data is unreliable—for a 'foreign visitors night' indicator. One might have thought this could advantage Watford. But it doesn't and we (along with Broxbourne) are the biggest losers in Hertfordshire with an exemplification showing a 0.6% loss of grant (£43k) for WBC. Herts mere gain 0.8% (£54k); Dacorum gain 0.6% (£57k); and TRDC gain 0.1% (£5k).

Herts CC are due to lose 0.8% (£1.2m).

**( In formulating Watford's response to this I will point out that Watford is a regional centre and a major transport hub. This has resulted in a large**

**inflow of day visitors which does have a financial consequence upon environmental services such as street cleansing/ provision of open spaces. Watford would therefore oppose this change. )**

The second question wishes to replace an authority's own spend on Flood Protection with a GIS analysis of the length of the watercourses. This indicator has come under criticism in the past because some authorities have been abusing the system and recording potentially dubious amounts of expenditure on the Revenue Outturn (RO 5 Return). For Watford we would suffer a 0.1% loss (£7k); TRDC would lose 0.2% (£10k); Broxbourne 0.5% (£35k); and Hertsmere would lose 6.8% of their grant (£462k). I have confirmed with the CFO at Hertsmere that it had indeed been taking advantage of the current system and have been using this grant to build up a reserve (for when the system changed and their grant would fall).  
HCC lose 0.1% (£150k).

**(I would propose on Watford's behalf to support this change even though it marginally disadvantages WBC as it is clearly inequitable that the current system can be manipulated.)**

The third question again wishes to substitute coastline data for an authority's own spend. This has no effect in Hertfordshire.

## **Chapter 8 Area Cost Adjustment**

One question:

The proposal is to adjust the weighting given to the Labour Cost Adjustment across all Council services. This is supposedly to reflect the different wage rates paid by private sector contractors—where services have been outsourced. So for example the Education, Police and Fire Weightings are unchanged—because those activities are not outsourced. The EPCS Block reduces by a 5% weighting; Highways Maintenance by a 20% reduction in its weighting—because both services are seen as having an element of outsourcing and therefore a lower salary base.

As a consequence Watford lose 1% of grant (£72k). All Herts districts (with the exception of Stevenage, which suffers no loss) are similarly affected.  
HCC lose 0.9% (£1.4m).

**(On Watford's behalf I would propose to oppose this change and simply make the comment that where services had been outsourced that legislatively authorities had to transfer staff on the same terms and conditions as if the Council was still operating the services.)**

## **Chapter 9 Relative Needs**

No questions/ no proposals—just an explanation.

## Chapter 10 Scaling Factors within the Formula

Two questions:

First Change the Scaling factors:

This benefits all of Herts.

Watford gain 0.6% (£43k); TRDC gain 1.6% (£81k); St Albans gain 2.5% (£175k). HCC gain 1.7% (£2.5m).

Second: if scaling factors are changed then would we prefer Ministers to be able to set judgemental weights on two bases.

For Watford it makes little difference (an extra £7k). It affects TRDC (only £20k gain); St Albans (only £49k gain); and particularly HCC which actually lose £3.4m under this proposal compared to £2.5m gain earlier (a massive £5.9m adverse swing).

**(Without really understanding the underlying methodology, Watford should support the change –as we stand to gain. I would suggest I oppose the ability for Ministers to override the data and make judgemental decisions as this rather leaves the system open to political interference.)**

### Summary So far

I will pause at this point to review the effect of the 16 questions posed so far. On balance if all questions were agreed Watford would probably be circa £70k worse off. The danger of course is that those questions most adverse to Watford will be agreed:

- Change day visitors to foreign visitor nights effect £43k adverse.
- Change area cost adjustment £72k adverse.

We need the change to scaling factors to apply £43k positive.

We now progress on to some of the more significant issues.

## Chapter 11 Floor Damping Levels

Watford currently receive £823k in grant protection. The protection is funded by taking grant off other District Councils.

Watford's protection has reduced marginally since the system was introduced in 2002/2003 by the simple expedient of giving those authorities in receipt of protection an average 1% lower increase in grant year on year. For example in 2010/2011 'floor protected' authorities had a 0.5% increase in Formula Grant whereas those authorities subsidising the recipients had a 1.35% increase..

One Question: Over the next Spending Review period (three years) 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?

I cannot profess to understand the implication of this question although I think the first part of the question appears to protect the current status quo more than the second part. Option 2 suggests that those authorities currently funding the grant protection should be allowed to enjoy any Formula Grant changes without a 'cap' applying on such gains. If this occurs then those in receipt of floor protection might well suffer. There are no exemplifications attached to this question as it can only be evaluated once Formula Grant methodological changes have been agreed..

The good news is that Floor Protection appears to continue in some form in the three years 2011/2014.

**(I would suggest that Watford's response should be to support the first Option as that would appear to provide most overall protection should we suffer significant adverse changes to the current methodology e.g Concessionary Fares. It can be argued that at a time when the total Formula Grant available is being drastically reduced then this situation should not be exacerbated by individual additional swings in receipt of grant. An emphasis on the need for as much stability and certainty as possible therefore.)**

## **Chapter 12 Transfers and Adjustments**

This broadly occurs when either specific grant is converted into Formula grant or when a function transfers from one type of authority to another. This second occurrence will relate to concessionary fares.

Two initial questions relate to including some specific Police funding into Police Formula funding.

This does not affect Watford or Herts CC.

It does affect the Police. Under question one there is very little affect for HPA.

Under question 2 HPA lose £500k (0.4%) before floor protection and lose nothing after protection.

## **Concessionary Fares**

Needless to say this is both the most complex and the one that will affect Watford the most.

The questions are:

Which of the four Options for removing concessionary travel from lower tier authorities do you prefer?

Which of the six options for rolling in concessionary travel to upper tier authorities do you prefer?

Should concessionary travel have its own sub block?

The above options are further complicated by the fact that the exemplifications are shown before and after floor protection. This is linked to Chapter 11 regarding whether any changes should or should not be damped down by floor protection.

**I have provided some more information at the end of this paper.**

I believe the Council should not directly comment upon any of the options referred to above due to a lack of information upon which to pass judgement.

**Our response should however make the following points:**

- **the current system impacts disproportionately upon authorities which are transport hubs such as Watford and results in our subsidising neighbouring authorities. This inequity needs to be addressed as part of the transfer of function/ funding to the County Council (see explanation for this conclusion at end of Paper). Any Options which achieve this aim should be adopted and should not be 'neutralised' by reducing current levels of floor protection.**
- **Any other changes to the Formula Grant methodology needs to recognise the significant impact it will have upon individual authorities and whatever Options are chosen should ensure full protection to the worst affected.**

### **Unadopted Drains**

Responsibility is to be transferred to sewerage and water companies and an element of funding will be taken off districts as a consequence. This should be relatively minor. WBC spend circa £7k per annum on this function. Due to the relative insignificance of this amount **Watford should support the principle of transferring responsibility but state that, due to its de minimus nature, there should be no adjustment to funding.**

### **Data Changes**

#### **Chapter 13: Incapacity benefit Indicator**

One question—use of data quarterly rather than yearly  
No effect for HCC or districts.

#### **Chapter 14: Children Income Support data**

One question about changing data source

HCC gain 2.7% (£4.1m)

Watford gain 0.6% (**£43k**) and we should support this proposed change.

#### **Chapter 15 Student exemptions and council tax base**

One question: use of May Data

HCC gain 0.1% (£200k)

No effect upon districts

#### **Chapter 16: Secondary school pupils in low achieving, ethnic grouping**

One question about changing definitions

HCC gain 0.2% (£300k)

No effect on districts.

#### **Conclusion:**

The methodology within the Formula Grant calculation is extremely complex and it is difficult for authorities to make value judgements about the rights or wrongs of any proposed changes. As a consequence the inevitable response is to consider—‘how does it affect my authority’.

In addition most of the exemplifications are before safety net/ floor protection so it is not possible to work out losses / gains because the ‘floor’ might be adjusted to compensate.

If we exclude the effect of the transfer of responsibilities/ funding for concessionary fares to Herts County Council then the package of proposals above show some gains and some losses. If I had to average it out/ consider what is likely then I would probably say Watford might lose circa £50k. This may (or may not) be covered by a continuation of the Floor protection system.

Concessionary fares does however have the potential for a massive impact upon levels of grant received by Watford. The Options (considered in more detail ) below indicate a worst case of a £1.1m reduction in the base position before the adoption of any Options. This could then be affected by a further loss of £330k of grant should the most disadvantageous options be adopted.

It must be stressed that these potential grant losses are in addition to any general grant loss likely to arise as a consequence of the Government’s Comprehensive Spending Review which is to be announced on 20<sup>th</sup> October.

The Council's Medium Term Financial Strategy (discussed at Agenda item 8, Service Prioritisation) has not factored in these potential losses at this time but has assumed methodology and transfer of responsibilities changes will be cost neutral for Watford. Unfortunately the true picture is unlikely to be known until mid December at the earliest and it is not sufficient to await the individual grant settlement for Watford. Plans to make service efficiencies need to be formulated now and is discussed further at Agenda Item 8.

### Supplementary Note: Concessionary Fares : the Options

The net cost of concessionary fares is to transfer from being a District Council service to being a County Council service.  
The current statutory scheme is not fully funded by Central Government as the extract below indicates:

#### Herts Countywide Concessionary Fares Scheme

	2008/2009			2009/2010		
	Watford £'000	Three Rivers £'000	Hertsmere £'000	Watford £'000	Three Rivers £'000	Hertsmere £'000
Gross Expenditure	1,231	465	573	1,305	489	556
Specific Grant	(433)	(124)	(211)	(443)	(127)	(216)
Net Cost	798	341	362	862	362	340
Revenue Support Grant	385	320	446	387	321	448
Effective Net Cost	413	21	(84)	475	41	(108)
<i>Population</i>	<i>80,110</i>	<i>87,740</i>	<i>96,050</i>	<i>80,270</i>	<i>88,450</i>	<i>96,500</i>
<i>Bus Passes in Circulation</i>	<i>9,556</i>	<i>10,867</i>	<i>13,179</i>	<i>9,556</i>	<i>10,867</i>	<i>13,179</i>

This table also indicates the inequity of the current scheme. For example, Hertsmere has 13,179 Bus Passes in circulation compared to Watford's 9,556 (these figures are the current level of bus passes for each area).

Paradoxically however the concessionary fares payments to bus operators cost Watford £475k in 2009/2010, whereas Hertsmere appear to have made a 'profit' of £108k. This is because the definition of trips (and therefore payment to bus and rail operators) is determined from where the trip was made **not** from where the individual resides i.e which council. As Watford is a transport

hub we are effectively paying for trips made by Hertsmere and Three Rivers residents. The £475k net cost in 2009/2010 equates to £15 of the Band D council tax picked up by our residents.

It is the intention to bring this to the attention of the DCLG as part of this consultation process because all of the options we are asked to comment upon effectively enshrines this 'subsidy' to neighbouring Districts within the transfer of financial resources to the County Council.

What of the 10 options on offer? It is virtually impossible to validate/ understand the methodology behind the options as they are linked to complex regression analysis. Local authorities do not have the modelling to be able to test alternative proposals. I can therefore only comment upon the exemplifications provided:

**Options 1 to 4 are before any 'Floor Protection'.**

They all show Watford losing £1.1m in grant (which includes other costs relating to concessionary fares other than payments to operators referred to above). This figure which relates to 2008/2009 will be replaced by the actual cost for 2009/2010 **and one issue we will need to ensure is that the data for 'net cost' is accurate.**

**Option 1** Indicates a gain of £86k (1.2%)

**Option 2** Indicates a further loss of £187k (-2.6%)

**Option 3** Indicates a gain of £439k (6.1%)

**Option 4** Indicates a gain of £223k (3.1%)

However all of these are before the operation of the floor protection system (where Watford currently receive £823k of additional floor protection grant). It is necessary to view these options where floor protection is removed as follows:

**Option 1** Indicates a loss of floor protection of £301k (4.3%)

**Option 2** Indicates a loss of floor protection of £154k (2.2%)

**Option 3** Indicates a loss of floor protection of £315k (4.5%)

**Option 4** Indicates a loss of floor protection of £7k (0.1%)

It is not made clear within the exemplifications whether Option 1 before and after floor protection are linked so that Watford would gain £86k and then lose £301k or whether it would just lose a net £301k.

Similarly under Option 2 would we lose £187k and then further lose £154k after floor protection or just lose a net £154k.

All of these Options directly impact upon District Councils.

There then follows a series of exemplifications which, if any are adopted, would indirectly affect district councils –(this is on top of the £1.1m referred to earlier).

**Options 5,6,7,8,9 &10** all indicate additional Formula Grant of between £299k and £366k (an additional 4.9% to 6.0 %).



Again, however, after floor protection all options indicate a loss of between £322k and £329k (4.6% to 4.7%).

Finally there is an **Option 11** which asks whether Concessionary fares should have its own sub block within the Formula grant system.

Within the main body of this Paper I have suggested we should not directly comment upon any of these options but make a few general points about the inequity of the current system (with the hope that chosen Options will best compensate authorities such as Watford !!).

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20<sup>th</sup> September 2010.