

SIGOMA

*The Special Interest Group
of Municipal Authorities (Outside London)*

RESPONSE TO THE CONSULTATION PAPER ON FORMULA GRANT DISTRIBUTION

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1. INTRODUCTION AND OVERVIEW

SIGOMA is a Special Interest Group of 46 Municipal authorities located outside London and its membership comprises of 35 metropolitan districts and 11 major unitaries.

SIGOMA welcomed the previous review of Local Government Finance that resulted in changes to the system being introduced in 2003/04; however it was recognised that further work still needed to be undertaken, and progress made in redistribution of resources, if the aim of a fairer system was to be achieved.

We are therefore pleased that the Government has undertaken a further review and in particular, the re-examination of Social Services formulae promised following the last review, as reliance on 1991 data cannot be sustainable.

SIGOMA is pleased to have the opportunity to respond to the issues and questioned posed within the consultation paper, which is the result of dialogue with its Members, with the aim of highlighting how the proposals may support our communities and deliver the Governments agenda.

Comments on the key area and detailed responses to the individual questions raised are set out in the following pages.

Finally SIGOMA also wishes to raise our extreme disappointment with the Government's decision not to deliver the promised revaluation and therefore the potential for Council Tax reform.

The resulting reliance of the system on a major data source based on 1991 information undermines the fairness of the system as a whole and the lack of equity needs to be resolved through alternative means.

The very communities that need support continue to be denied adequate resources, that will inevitably lead to higher Council Tax increases and Service reductions than our authorities had planned for.

2 SCHOOLS TRANSFER

SIGOMA has made clear its position on the transfer of school funding from FSS to a direct grant, as part of the separate DfES consultation.

If however, the current proposals are to be implemented then SIGOMA is concerned that decisions taken at a local level with regard to funding priorities within overall resources available should not result in authorities being penalised with regard to grant levels remaining to fund other priority services.

Question 1: Do you think that there should be a customised damping system?

The basis on which the transfer is being proposed:

- is less than transparent,
- provides only an *estimate* of the quantum to be transferred (ODPM/DfES should have agreed and provided the *actual* total in an attempt to ensure an effective and meaningful consultation), and
- the customised damping system is not adequately illustrated.

The exemplifications provided need to be re-worked to take account of the interest on school balances to be transferred out of the non-schools grant system; this course of action will result in an overall increase in the Capital Financing FSS, but will lead to a reduction in the total funding to be allocated to schools ie: the DSG transferred should be less than £87m used in the exemplifications.

SIGOMA believes that protection of grant for other services as outlined in the consultation should be implemented but that it should not be at the expense of those education and social service authorities that are above the floor. SIGOMA believes that funding for the customised damping should come from outside the general grant system.

Question 2: Do you have comments on the Government's other proposals, to adjust the base using spend figures and to isolate police, fire and shire district authorities from the effects of the transfer?

SIGOMA did request and would have welcomed a clarification of the 'spend' figures – more guidance as to the data actually extracted from the S52 Statements would have proved helpful.

SIGOMA believes there is a case for isolating police and fire authorities from the effects of the transfer, but ODPM should consider affording a different approach to shire districts. It could be argued that isolating the latter provides protection to such councils at the expense of all other authorities that also provide EPCS level services, but may suffer a reduction in funding for 'liveability' issues due to DSG transfer.

Whilst it is acknowledged that shire districts do not hold education and social service responsibilities, and so should not be directly affected by the transfer, further thought needs to be given to the distribution of EPCS funding between the different tiers of authority.

Protecting services provided at a district level in two-tier shire areas and not in the areas of unitary authorities would be an inequality that could impact adversely on council taxpayers as well as service users in SIGOMA authorities.

3 NEW GRANT SYSTEM

Question 3: Whether we should use the proposed alternative grant system?

SIGOMA is disappointed to note that ODPM has made no attempt to identify the benefits that an alternative system could bring, and the reasons for the proposed change are not apparent.

SIGOMA is of the opinion that change should only be considered if an alternative grant system is technically superior to that used at present. The 4-block system proposed does not appear to satisfy this criteria – and indeed, whilst it does continue to do what the existing system does ie: distribute grant, it does so with less clarity in terms of relative need and ANCT, and obscures the link to the council tax system.

The advantages of the current formulaic system are that the calculations are transparent and, to a considerable extent, equitable. These qualities must be retained at all cost.

4 3-YEAR SETTLEMENTS

Comments:

SIGOMA authorities are concerned at the proposed use of population projections in the grant distribution formula and the lack of any consultation question about this issue.

Projections that are based on historic trends may not recognise a slowing-down of population decline in those areas that have previously suffered significantly. In addition, the move from mid-year population estimates 2003 (as used in the 2005/06 Settlement) to the use of projections for 2006 will result in at least 2 years worth of population decline for a number of authorities (several of which would have received population growth using 2004 estimates), all to be managed within 1-year's settlement. This is clearly evident from the significant differences between the projections for 2004 and the 2004 estimates. The ODPM is asked to produce full exemplifications of the impact of the intended change from 2004 estimates to 2006 projections, so that the impact of this change is transparent.

Discussions at SWG Meetings earlier this year identified some support for the principle of using more up to date projections for population and council tax in the context of firm three-year settlement figures, where projections would be needed to provide a fixed grant figure for Year 2 and an indication of the grant figure for Year 3. It was considered important that there was consistency in the date of both of these data sets. Current proposals differ from this in several significant ways, as outlined below:

- Firstly, such a significant change is not fully justified or required at this stage on the grounds of moving to three-year settlements. For 2006/07, the 2004 estimates are available and while a projection is needed for 2007/08, if this is not to be a fixed grant, this projection could be replaced next year to reflect the 2005 population estimates when the 2007/08 settlement is finalised.

- Secondly, the move to a projected 2006 population data is not currently matched by a proposal to move to a 2006 taxbase projection, which was an important point in terms of consistent use of data
- Thirdly, the 2006 population projection is not considered robust (the data was not designed for this purpose as recognised in the ODPM Paper SWG 05/12 – Appendix B) and it is not as up-to-date as it should and could be – with no apparent intention to adjust the projection to reflect the most recent 2004 estimates published in August.
- Fourthly, there is concern about the impact of continuing to use 2004 estimates as a divisor to calculate the proportion of population with other characteristics, for example those in receipt of Attendance Allowance (AA)/Disability Living Allowance (DLA) etc. If the ODPM press ahead with using population projections it would surely be more consistent to use a projection for 2004 rather than the estimate

For those authorities with growing populations, the converse applies: ONS has produced projections that assume very small increase in population in the immediate years - our concern is that these projections have already been exceeded by the recently published 2004 mid-year population estimates, and so the latest projections of population seriously under-estimate actual levels. Our understanding is that there is no intention to produce the next round of population projections, based on the 2004 mid-year population estimates, until Autumn 2006, by which time these will be out of date because the 2005 estimates will have been produced!

Since SWG met, the context of its discussions has changed fundamentally by the decision not to implement council tax revaluations in this parliament. There is a close link between population changes and movements in property prices, as relative changes in population are the main factor influencing relative changes in demand for property and therefore property prices. Using forward projections of population data will clearly accelerate the shift of grant away from those authorities suffering a long-term trend of relative population decline, many of which are SIGOMA authorities. Those same authorities had, as a consequence of the same population trends, been anticipating that council tax revaluation would recognise that their properties had been relatively overvalued since at least the late 1990s and would have shifted grant towards them to support lower council taxes. The use of forward population projections is therefore entirely inconsistent with the decision to postpone council tax revaluation, and should prompt a ministerial rethink. The issue would certainly have been featured in SWG's considerations had the ministerial announcement on revaluation been made in the Spring.

As a minimum, if population projections are to be considered then it is imperative that tax base projections are also implemented within the same timeframe.

As a final point, SIGOMA takes issue with Page 36, Para 65 which states that “the settlement for this (3rd) year (of the cycle) will not be reopened, simply recalculated to give a more accurate starting point for the calculation of the following settlements.” This causes concern – an authority may be above the grant floor, and on recalculation falls to the floor, but this revised amount will be used as the baseline for forthcoming financial settlements. However, the purpose of the floor is to offer protection re: year on year cash movements, and obviously in the case above this is not apparent. ODPM need to give this circumstance careful consideration.

5. EDUCATION – LEA BLOCK

Question 4: *Do you think we should remove the element for Further Education residual pensions?*

SIGOMA would usually agree that planned spending data should not be used within formulae. However, in this case we do not support the removal of the FE residual pensions element; SIGOMA rejects this proposal on a point of principle, given that DfES gave a firm commitment to match expenditure incurred relating to the pension liabilities that were to remain with local authorities from 1993 onwards.

ODPM should investigate reasons as to why a number of local authorities appear to be reporting a year on year increase in expenditure covering historic commitments (thereby enhancing formula grant), rather than considering removing the FE element. If necessary a requirement to provide audited data should be considered to give more confidence in the data.

Question 5: *Do you think the LEA damping block should be removed?*

The LEA Damping block has been in existence since the last review in 2003/04. As a result it no longer greatly affects any local authority's total FSS, and given that it is an anomaly (since damping is generally provided by the grant floor), SIGOMA supports the proposal for its removal. In addition, any protection needed would be afforded by the overall floors system.

6. PERSONAL SOCIAL SERVICES

As indicated in the consultation paper, the previous review saw little changes made to the formulae for Social Services with the Government acknowledging the need to review at the end of the moratorium.

SIGOMA is pleased therefore that the Government has commissioned external research for each of the sub blocks in order that the current implausible system based on data from 1991 – now some 15 years out of date – may more fully reflect the issues of today.

Current funding levels for SIGOMA authorities clearly demonstrate the implausible results of the current system as can be seen below

	<u>FSS per Child</u>	<u>FSS per Young Adults</u>	<u>FSS per Elderly</u>
	<u>£</u>	<u>£</u>	<u>£</u>
SIGOMA	412	126	858
Inner London	1,140	212	1,385
Outer London	500	135	860

Children's funding is of particular concern, given that virtually ½ of the 10% most deprived small areas are within SIGOMA compared to 12% in Outer London

The above inadequate levels of funding are also further impacted by the current 'pace of change' policy for PCT funding where the same authorities are anticipated next year to receive some £216m less than their assessed needs and London and South East some £619m more.

The opportunity to address this major inequality cannot be missed.

Question 6: Do you agree with the Government's proposal to implement option SSC1? If not, what alternative would you propose?

SIGOMA strongly agrees with the government's proposal to implement Option SSC1. We support all data updates as a matter of principle and are pleased that the main needs formula has removed the 'children living in flats indicator' (that has in the past disadvantages those urban areas outside London) and replaced it with 'children not in good health'.

As the consultation document makes clear, SSC1 is the result of detailed research and modelling and is the best formula model to emerge. Now more than ever there is a need to ensure that funding is sufficient to meet the demands placed on Children's Services (because of the ring-fencing of the Dedicated School Grant (DSG) which may only be used in support of the Schools' Budget); for many children, educational attainment depends as much on social services as on mainstream schools funding.

Question 7: Which option for updating the Foster Cost Adjustment do you prefer?

SIGOMA has previously expressed concerns about the appropriateness of this adjustment and the weightings and the level of resources allocated through the FCA in addition to the ACA.

SIGOMA therefore does not believe that there has been a fully argued case for either of the options proposed.

If however the Government is to implement change, Option SSC3 penalises the majority of our Members the least.

Question 8: Do you think that there should be specific floors with either ceilings or scaling factors on the children's social services FSS to limit the extent of the changes?

Whilst SIGOMA understands the Government's concerns over stability in funding, there needs to be recognition that resources need to be directed to those identified as most in need who have been receiving less than their fair share for many years. Any limits on change must therefore reflect this.

SIGOMA's view is that it is fairer to have one floor adjustment at the end of the grant distribution process, rather than apply separate floors to each of the individual service sub-blocks or blocks. To do otherwise would result in an authority benefiting by one of more floors on individual spending blocks and yet not receive a total grant increase above the general floor. Such an authority would thus be receiving grant that, in accordance with the final floor adjustment, it did not need.

Question 9: Which needs formula option do you prefer – SSE1 or SSE2?

SIGOMA preferred Option SSE1 (taken to be Model 1 in SWG Papers 05/60 & 05/63), both in terms of the indicators used within and the ‘individual analysis approach’ adopted (which samples those older people who are actually in receipt of care). Thus, we have been extremely disappointed to learn that the Department of Health (DoH) has withdrawn this option, citing the final survey sample as being too small from which to draw reliable conclusions. .

SIGOMA strongly objects to Option SSE2, the only remaining proposal, as we oppose the inclusion of the indicator ‘Households and Supported Residents Aged 90 and Over’. This indicator does not provide for those authorities with a higher than average mortality rate within this age group – urban areas tend to have fewer older people falling into this category yet have a population that requires care at a relatively earlier stage within their lifecycle. Indeed, it is argued that those falling into the ‘80 to 84 years’ age category are as ill and require the same intensity of care as those who are 90+.

In addition, SSE2 only includes the ‘older people on attendance allowance’ indicator, whereas the withdrawn option (SSE1) included ‘Older People on Attendance Allowance or Disability Living Allowance.’ SIGOMA is particularly concerned about the impact that this abbreviated indicator (as per SSE2) could have on the funding of our members, and believes that there has been no justification for its use.

SIGOMA is of the view that DoH should produce a ‘hybrid’ option (with exemplifications) as an alternative to SSE2, utilising the lower age category, and also including the ‘Disability Living Allowance’ and the ‘Long Term Limiting Illness’ indicators as per SSE1. - funding for the care of older people represents a significant proportion of local authority resources.

Question 10: Do you agree with the proposal to revise the Low Income Adjustment to include 2001 Census data?

As stated in the response to Question 6, SIGOMA believes that ODPM should utilise the most recent data available, and so include the 2001 Census data.

An additional comment is that we are please to note that ODPM has seen fit to remove, form the Low Income Adjustment, the ‘Proportion of Older People Not In A Couple Or Head of Household’ indicator. This has been widely recognised as not measuring what it was intended to, given the questionable definition of what constitutes a ‘couple’ and a ‘household head’. However, SIGOMA would like to have exemplifications that show in isolation, the effect of the data update, and then the effect of removing the indicator, so as to make a more meaningful assessment of the changes that could be introduced.

Question 11: Which method of distributing the sparsity top up do you prefer?

SIGOMA prefers Option SSE5, which is based on a new method of calculation using a distance-based measure and claims to provide a better measure of the cost of caring for the elderly in rural areas.

Question 12: Do you favour increasing the quantum for the sparsity adjustment to more than 0.4%?

The sparsity adjustment, which reflects the extra costs of delivering home care services to people in sparsely populated areas, currently accounts for 0.4% of the Older Peoples' Social Services quantum based on judgement and so should remain at this level; indeed, as in the previous review no evidence to been presented in support this ODPM proposal

Question 13: Which option do you prefer for the Younger Adults Social Services formula?

SIGOMA prefers Option SSA2 because the model contains a wider range of variables – such as the indicator for 'People who are long-term unemployed or have never worked' - and is based on an assessment of need, unlike Option SSA1; indeed, we reject Option SSA1 because it is cost based, using the cost of providing younger adults social services per 1,000 people aged 18-64 inhabitants for each ward, as the dependent variable.

7. POLICE, FIRE AND RESCUE

Questions 14 – 19

No comment - our membership does not include any single-service providers

8. HIGHWAY MAINTENANCE

Question 20: Do you agree that back lanes should be included in the highway maintenance formula?

Yes, based on the exemplifications given in SWG Paper 05/50 (our understanding is that the data contained within the actual consultation document is incorrect), and because the maintenance of back lanes involves additional costs for local authorities. However, clarification on the definition on 'back lanes' would be welcomed, and ODPM may need to give thought to the need for equal treatment with other areas having comparable 'roads'. Consideration should be given to incorporating the back lane road lengths within weighted road lengths (at an appropriate weight) to avoid an extra complication to the presentation of the formulae.

Finally, SIGOMA would prefer a rolling 3-year average of the data to be incorporated within the formula, given that this data may be subject to a degree of volatility.

Additional Comments:

SIGOMA continues to be concerned about the lack of progress being made in developing the Integrated Transport Network (ITN) GIS, which should be being used to determine road length. Accurate data at an authority level is urgently required, since road length information is implicit to the Highways Maintenance FSS, and can have a significant impact on traffic flow data used in the 'usage top-up' element of the current formula.

9. ENVIRONMENTAL, PROTECTIVE AND CULTURAL SERVICES

SIGOMA wishes once again to raise the significance of this block to both the national and local agenda. Funding from this block is crucial for the delivery of the liveability, anti social behaviour and 'what matters on the streets' agenda.

The removal of Education funding may have a significant impact on the resources available, with many authorities currently less able to spend resources on education seeing the potential for further monies being lost for these vital services.

Previous settlements have provided little improvements in the overall levels of funding and therefore on the services that our most deprived communities rely on. SIGOMA would therefore urge the Government to seek additional resources for this area.

SIGOMA also believes that further improvements could be made in this area through increasing the weightings on deprivation to target the resources in a more appropriate way.

Question 21: Do you think we should adjust the coefficients for concessionary fares?

Although not as drastic a modification as some proposals envisaged, SIGOMA supports the proposed adjustments to the coefficients, believing they are necessary so as to:

- adequately reflect the major legislative change required by the introduction of a ‘free-fare’ scheme, and
- allow the additional £350m of funding re: concessionary fares to be distributed on a more equitable basis (and so prevent a free travel scheme resulting in a withdrawal of services in some areas due to inadequate funding).

An overriding concern relates to ensuring that any changes to the formula must be capable of not only fully recompensing those authorities that are to provide a free-fare scheme for the first time, but also meet the funding requirements of those councils where full concessionary fare arrangements already exist. Indeed, and in the past, current providers of free-fare schemes have had a proportion (if not all) of the cost of the provision met by their council taxpayers – to achieve equity of funding, existing providers must be allocated their full funding share, as indicated by the formula, not just a share of resources to meet the marginal increase in costs of progressing from a half fare to a free-fare scheme.

As an additional point, SIGOMA believes that the ODPM should consider incorporating the variable on ‘no car ownership’ (and/or ‘*pensioner* with no car’) into the formula, as ANEC analysis has suggested that this is highly correlated with the cost drivers relating to free fare travel. The argument for using a car ownership indicator within FSS is further supported by a paragraph in the ONS/Department of Transport publication ‘Transport Statistical Bulletin 2005’; indeed, Pages 30/31 shows how bus usage and car ownership are linked and states that “the most important factor which influences bus usage is access to a car...in households without a car people travel 177 stages a year by bus; car owners travel 37 per year”.

Finally, some members who could still be facing significant losses next year as a result of this statutory change are extremely disappointed that the ODPM were not prepared to mention or even consult on other options via the consultation paper. They believe that given the specific grant solutions that have had to be found in Scotland and Wales, the option of a small hybrid grant to help mitigate the losses cause by using a formula solution is worth considering, particularly if it were funded from additional resources. Consideration should also be given to how the additional funding could be passported through any floor arrangement.

Question 22: Do you think we should make any further changes to coefficients; for example, it has been argued that we should do so to take into account the increasing expenditure on waste?

No, not unless evidence can be presented to the contrary and so far none has been advanced by ODPM.

Whilst CCN proposed a separate waste block in SWG Paper 05/47, there were no suggestions as to how to adjust the remainder of the EPCS block.

Question 23: Do you think we should update the fixed cost element?

It may appear reasonable to propose an increase, in line with inflation, to the EPCS fixed cost element but SIGOMA opposes this suggestion – the need for the increase has not been evidenced and we are also of the opinion that the control total for fixed costs should not be increased at the expense of all other EPCS sub-blocks.

Question 24: Do you agree with the proposed method for transferring COWs to the Environment agency?

Yes, SIGOMA agrees with the proposed method of transfer.

Additional Comments:

SIGOMA would like to highlight a concern relating to the update of the density factor used within the EPCS Block:

In previous settlements, the calculation of the density factor has taken account of the population and area of each 1991 Enumeration District (ED) – however, the proposal for 2006/07 is to use data relating to 2001 Census Output Areas (OAs).

Ideally, the change in the calculation between the present 1991 Census based measure and the proposed 2001 Census based figure should purely reflect the changes in population density caused by migration and housing developments. So authorities that are experiencing growing populations should have their density factor increased - but this appears not always to be the case.

EDs in 1991 were drawn mainly around urban parts of a ward, and the remainder often became one large but relatively sparsely populated ED. In 2001 the calculation of OAs was done in such a way that large sparsely or non-populated areas were split between several OAs. This occurred wherever open spaces were present in a ward - school playing fields or industrial estates, for example, were usually in single EDs in 1991 but are almost always divided by three or more OAs in 2001. The mathematics of the calculation unfortunately ensure that this causes a decrease in the resulting density factor, with the effect being greater in some authorities because of significant tracts of open space, industrial land etc within the urban area.

Whilst the 2001 Census only reported the geography of small areas on an OA basis, SIGOMA requests that ODPM give consideration to the issue raised, given that 35 member authorities will suffer a reduction in EPCS FSS as a consequence of the proposed change. The fact that an authority's density can change significantly, despite the fact that exactly the same numbers of people continue to live in exactly the same location, does highlight the inconsistencies in the methodology.

10. CAPITAL FINANCING

Question 25: Do you think we should remove the Interest Receipt elements?

We believe that Interest on Reserved Receipts (IRR) should be abolished, as it is no longer possible to derive a reliable formula, but that Other Interest Receipts (OIR) should be retained subject to a data update and a new class split which separates Metropolitan authorities from London Boroughs. SIGOMA strongly supports the latter - we have long felt that our authorities are disadvantaged by being grouped in this way, given that London authorities have a significantly higher level of balances than our members.

We also wish to show our strong opposition to Option CF2 on the basis that this proposal has never been taken through the recognised channels for debate – indeed, it was not presented during any SWG Meeting, hence the absence of any proper discussion relating to its suitability as a proposal.

Question 26: If we retain one or both of the Interest Receipt elements, do you have any views on how they should be distributed?

SIGOMA is very disappointed that the ODPM has not produced exemplifications to support this question – without illustrations, respondents are likely to be hindered in making an informed choice as to their preferred option.

Despite this, SIGOMA's views are still as per our response to Question 25: OIR to be distributed by class shares as set out in SWG Paper 05/69 Table 5 2nd column (Other Reserves Excluding Schools), applied to the classes used in SWG Paper 05/69 Table 4, and within this by non-capital FSS as at present.

Question 27: If so, should we reduce other FSS totals to compensate, or not? And if we reduce other FSS elements, where should we make the reductions?

In line with our response to Question 26, any adjustments to control totals should be applied to non-capital financing FSS, consistent with CF3.

Additional and careful consideration should be given to the method of adjusting other control totals. Rather than simply reducing the control total and scaling back all elements of the FSS for that service, SIGOMA believes that there is a good case for protecting top-up elements, for deprivation in particular. Simply reducing the control total means that the most deprived authorities would receive a bigger share of interest on capital receipts deduction. It is counterintuitive that deprived areas have been able to generate more capital receipts than less deprived areas. In reality, land and property values tend to be lower in deprived areas outside London and the opposite position should be true. The option that the ODPM is asked to illustrate is the reduction in the base amount within each FSS to achieve the reduction in the control total.

11. AREA COST ADJUSTMENT

Question 28: Do you have any comments on our intention to use the full ASHE data set to calculate the ACA?

SIGOMA supports the use of the full ASHE data set; we agree that it provides a better snapshot of the local economy, the weighting within enables the data to better

represent the national economy and the data set accounts for individuals with more than one line of employment (unlike at present).

Question 29: Do you think that we should remove the very small rates cost adjustment, or do you think that we should update the weighting of the RCA in line with 2003/4 expenditure data?

Our opinion is that the Rates Cost Adjustment (RCA) should be removed. We agree that the RCA over-complicates the ACA, and that the ACA should be adjusted so that it focuses purely on variations in pay costs.

Question 30: Do you agree with the Government's proposal to retain the current method of setting the lower limit for options ACA1-3?

We believe that public sector wage differentials between areas outside of London, and between the rest of England and the City, are not as large as currently perceived due to minimum wage legislation, national wage scales and their nationally agreed increases. SIGOMA therefore wishes alternative limits to be explored, each supported by relevant exemplifications.

In addition, ODPM should also review the evidence that London Boroughs persistently under-spend against FSS indicating that they are over-compensated by the ACA as it currently stands. This is demonstrated in Paper SWG 05/66.

Finally, ODPM should consider how to lessen the effect of the 'cliff-edges' that occur when an area oscillates around (above and below) the threshold, as in the case of Merseyside in 2005/06, an region that lost £14m as a consequence of moving into the lower limit.

Question 31: Do you think that we should calculate a separate ACA factor for each upper tier authority?

SIGOMA considers that this change is workable. On balance we consider that it should be supported, as it would refine the ACA calculation to take better account of the specific circumstances facing each upper tier authority.

Question 32: If we implement the change above, which option for setting the lower limit do you prefer?

SIGOMA prefers option ACA4, but would also wish further consideration and exemplifications to be provided based on the current geography but with alternative threshold against which the proposal could be clearly compared.

Additional Comments:

SIGOMA is concerned that the weightings applied to each service block, and currently used to arrive at the proportion of employee costs in the ACA, are significantly overstated and out of date (given that they were derived from the 1992/93 Base Return Estimate).

SIGOMA acknowledges the attempts to update the labour proportions by using the Subjective Analysis Return (SAR) 2003 and agrees that, as stated in SWG Paper 05/65, SAR is not sufficiently reliable to enable an update of the labour costs proportions used. However, we are anxious that some reasonable attempt be made to

update the weightings, given that local government finance is about to enter the next moratoria on formula changes. If modifications are not made as part of this review, then the earliest date for reconsideration of this issue will be after the 2008/09 final settlement.

SIGOMA urges ODPM to give this issue – and the need for change - further thought. Indeed, there could be an immediate reduction in the ACA weightings for employees for Elderly Social Services from 85% to 75%, in line with Children and Adult Social Services, as this is evidenced by the many robust independent studies outlined in the ANEC report to SWG.

12 ADDITIONAL RESOURCE EQUALISATION

Question 33: Do you think we should increase resource equalisation?

Resource equalisation is a fundamental principle underlying the whole of the local government finance system; indeed, ODPM's announcement on 20th September 2005, declaring the postponement of domestic property revaluations, emphasises now more than ever the continued need for resource equalisation.

SIGOMA believes resource equalisation should occur regularly, as a minimum every 3 years to coincide with the 3-year settlement cycle; this will help maintain the integrity of the system, ensuring that we are dealing with realistic figures as opposed to theoretical calculations considerably out of date.

SIGOMA would also raise the question of uplifting the EPCS block as the comparison of net revenue expenditure also shows FSS being less.

Question 34: Which of the options do you prefer?

SIGOMA supports full equalisation, as shown in option RE1.

We are concerned that RE3 shows the abolition of both elements of interest receipts. SIGOMA would expect any exemptions provided to at least reflect discussions and papers presented at SWG Meetings – please see our response to Question 25 & 26.

13. FLOOR DAMPING

Question 35: Do you consider that the capital adjustment should be abolished?

SIGOMA supported the use of the capital adjustment when first introduced as it ensured that authorities requiring capital investment were not penalised.

However there is now general agreement that its impact is now considered to be marginal and that the abolition of the capital adjustment will lead to a simplification of the overall system.

However, SIGOMA is concerned that the removal of the capital adjustment may have a significant detrimental effect on a number of local authorities currently in receipt of Building Schools for the Future (BSF) funding, but especially those at the 'floor'. SIGOMA therefore asks that ODPM investigate this concern, providing clarification and maybe consulting on this item again once the full implications of the capital adjustment removal are understood.

Question 36: Which approach for paying for damping you prefer (i.e. the existing method, DMP2 or DMP3)?

It is not clear what these alternative approaches to paying for the floor offer over and above the current method of damping (ie: scaling back). SIGOMA wishes the ODPM to present the case for each of the damping options referred to in the consultation document.

14. DAY VISITORS

Question 37: Would you prefer us to use the new day visitors indicator?

No.

SIGOMA is concerned that the work undertaken is not just a data update but also a significant change in methodology, resulting in output that is dubious in that:

- There appears to be a systematic bias in favour of district authorities
- There are numerous examples of tourists hot-spots that are receiving implausibly low numbers of day trippers eg: Blackpool
- The Trip Allocation Model devised by the consultants shows a lack of modelling for shopping related attractions and major sporting attractions
- Significant volatility exists between the data issued relating to:
 - the first and second release of day visitor estimates
 - the external day visitor threshold, reduced from 20 miles to 10 and then 5.

In a Circular issued 22nd June 2005, NERA state that “it is impossible to assess whether our estimate of the dispersion is justified by reality”, and for this reason and those given above, SIGOMA chooses not to have the new day visitor indicator incorporated into the forthcoming settlement – whilst the old day visitors indicator utilises data that relates to the early 1990’s, at least the model produces results that are recognised as being intuitively ‘correct’.

15. ADDITIONAL QUESTIONS FOLLOWING PUBLICATION

Question 38: Do you agree that the January pupil count should be used instead of the September pupil count as the source for pupils aged 11 and over?

SIGOMA agrees that the January pupil count should be used, thereby facilitating alignment with pupils counts for the distribution of the DSG and enabling all pupils to be counted at the same time, so reducing the potential for double-counting and errors.

Question 39: Do you agree that an adjustment to the 2001 Census based country of birth indicator used in EPCS should be made?

SIGOMA recognises that those 15 local authorities that were found to have people missed by the 2001 census could have a ‘country of birth of resident’ indicator (used in the EPCS block) under-representing the number of people in their authority born outside the countries specified, if an adjustment is not made. We therefore support the

proposed change, which happens to be in agreement with our principle of using the most up to date data currently available provided it is statistically robust.

Question 40: If you agree that there should be floors on the children's social services FSS, would you prefer a damping scheme based on a floor, ceiling and scaling factor or just on a floor and scaling factor?

As stated in our response to Question 8, damping should be confined to the overall allocations of RSG - that is, applied at the very end of the grant distribution process.

However, if ODPM insists on applying floors to Children's Social Services FSS then these must be funded solely from scaling rather than from a ceiling and scaling. The abolition of ceilings was a widely welcomed improvement in the 2005/06 settlement, and the view of SIGOMA is that they should not be re-introduced

SIGOMA's view is that it is fairer to have one floor adjustment at the end of the grant distribution process, rather than apply separate floors to each of the individual service sub-blocks or blocks. To do otherwise would result in an authority benefiting by one of more floors on individual spending blocks and yet not receive a total grant increase above the general floor. Such an authority would thus be receiving grant that, in accordance with the final floor adjustment, it did not need.

Question 41: Do you agree that an adjustment to the 2001 Census based output area density indicator, used in both the EPCS and Police blocks, should be made?

SIGOMA agrees that the inflator needs to be adjusted so as to take account of the revision to the 2001 mid year estimate resulting from the Local Area (LA) studies.

However, in discussing the density indicator, we wish to refer ODPM to the additional comments we have made under Chapter 11 - EPCS.