

HAMPSHIRE COUNTY COUNCIL

Decision Report

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1. Executive Summary

- 1.1. The purpose of this paper is to propose responses to recent Government consultations on:
- changes to the Dedicated Schools Grant for 2011/12 (section 2 of the report)
 - options for specific grants for Preserved Rights, Learning Disabilities and AIDS Support (section 3)
 - proposals for the top-slice of revenue support grant for improvement services to local authorities (section 4)
 - changes to the methodology used to distribute formula grant from 2011/12 (sections 5 to 8).
- 1.2. This paper summarises the proposals and highlights areas of concern. Draft responses are attached as Appendices to the report where the Government has provided template forms.

2. Dedicated Schools Grant and a per pupil premium

- 2.1. The Department for Education (DfE) issued a consultation paper on 26 July 2010 on proposed arrangements for the distribution of the Dedicated Schools Grant (DSG) for 2011/12 and the introduction of a per pupil premium for disadvantaged pupils to be allocated as a separate specific grant. The deadline for responses to the consultation is 18 October 2010.
- 2.2. Hampshire Schools Forum will be considering its response on 14 October 2010. It is anticipated that the Children and Young People Select Committee may examine the issue at its meeting on 13 October 2010.
- 2.3. The consultation paper deals firstly with the introduction of the per pupil premium and then school funding for 2011-12. The proposals for school

funding concern data sources affecting pupil number counts. The response form, attached as Appendix 1, is also structured in that way. No cash figures or exemplifications are included in the consultation paper as it is stated that they are dependent on the outcomes of the Government's spending review which will be announced in October 2010.

- 2.4. The emphasis for 2011/12 is on the introduction of the per pupil premium and accordingly the current method of distribution for DSG will continue to apply for 2011/12. It is the Government's intention to "bring in a simpler and more transparent funding system . . . work with key partners to consider how best to bring this about". This indication of potential changes at an unknown future date destabilises financial planning at both local authority and school level. The draft response attached as Appendix 1 raises concerns about it in the final section for 'further comments'.

Per pupil premium (question 1 in response form)

- 2.5. One of the coalition Government's key priorities is to introduce a pupil premium to support disadvantaged pupils, who continue to underachieve compared with their peers. Funding for the premium, which will be introduced in September 2011, will come from outside the Schools Budget to support disadvantaged pupils from Reception to Year 11 in primary and secondary schools only (special school pupils are not included). Schools will decide how best to use the premium to support the attainment of disadvantaged pupils. No reason is given by the Government in the consultation paper for excluding special school pupils. The Government may feel that Special Educational Needs funding already fully meets the cost of special school pupils' disadvantages.
- 2.6. It will be a separate specific grant and not part of DSG. The size of the premium will vary between areas to reflect current differences in funding, ensuring that more money is available for schools in authorities currently receiving lower per pupil funding. Thus the premium for Hampshire pupils would be significantly greater than that for pupils in very deprived authorities as the more deprived authorities would already be receiving higher levels of DSG per pupil. It is expected that the value of the premium will grow over time so that in the medium term the same amount of funding will be available for deprived children no matter where they are.
- 2.7. The Government also proposes to apply an Area Cost Adjustment (ACA) to reflect different labour costs in different areas in the calculation of the pupil premium. However the consultation paper surprisingly suggests the use of a different ACA from the one currently used for DSG. It also implies that this alternative ACA might be applied to DSG as part of the longer term formula review of DSG. This alternative approach is disadvantageous to Hampshire County Council and its schools and if applied to the main DSG could produce a loss of between £10m and £20m. The response opposes this change as applied to the per pupil premium and seeks reassurance that no such changes will be made to the ACA used in DSG without further consultation.

- 2.8. The ACA methodology currently used for DSG purposes is similar to the ACA used for formula grant purposes. As outlined in the section on the Government's consultation on formula grant distribution later in this report, this ACA methodology combines Hampshire and the Isle of Wight for ACA purposes, to the disadvantage of Hampshire as the higher cost area. The Government may wish to provide the Isle of Wight with some additional funding because of its island status but that should not be at the expense of the Hampshire area. It should be funded from national resources. There is no rationale in terms of the ACA for combining Hampshire and the Isle of Wight, and the responses to both consultations urges the Government to calculate a separate ACA for the Hampshire area.

Deprivation indicator for the per pupil premium (question 2)

- 2.9. The DfE offer a range of potential deprivation indicators for the per pupil premium:
- eligible for Free School Meals at annual school census date in January
 - pupils who have been registered as eligible for Free School Meals during the last three years
 - pupils who have been registered as eligible for Free School Meals during the last six years
 - pupils in families in receipt of out of work tax credit
 - commercial packages such as ACORN or MOSAIC. ACORN is 'A Classification of Residential Neighbourhoods' system conducted by Consolidated Analysis Centers Incorporated. MOSAIC is a people classification system owned by Experian.
- 2.10. The consultation paper says "The Government is very attracted to Free School Meals as a measure due to its clarity, simplicity, and pupil-level nature".
- 2.11. A national research project in 2006/07 by Bath University looked at factors affecting attainment and included a study of 46 primary schools in Basingstoke. This showed that pupils who were not consistently eligible for Free School Meals, but had been eligible for a short period, had similar deprivation issues affecting attainment as those pupils continuously eligible for Free School Meals. However the use of the six year time span discriminates against most of the primary sector as pupils will not have been on roll for that number of years.
- 2.12. In general the Free School Meals measures rank Hampshire as slightly more deprived than the out of work tax credit indicator.
- 2.13. There is no exemplification of the commercial packages ACORN and MOSAIC. They are not transparent and their focus on consumption patterns does not always relate clearly to disadvantage, so they are not really suitable.
- 2.14. It is therefore suggested that the three year Free School Meals indicator be the one supported.

Looked After Children and the per pupil premium (questions 3 and 4)

- 2.15. Looked After Children generally have poor attainment and the Government also intends that the pupil premium will extend to them. This will need to involve a separate process via local authorities, probably the In Care Authority, since deprivation indicators do not generally pick up Looked After Children accurately.
- 2.16. The argument for a higher cash value for Looked After Children than the main premium is based on the higher costs and greater attainment gap of such pupils. The consultation paper is not clear whether the Government envisages that funding for children in care should be differentiated by authority in the same way as the main premium.
- 2.17. Hampshire County Council has been operating a local pupil premium for Looked After Children for some years. From this local experience, it is proposed that schools should be allocated termly amounts for Looked After Children on roll. This gives a close link between Looked After status and presence on roll in an individual school for what can be a mobile population. The Government envisages using annual data from before the start of the financial year.
- 2.18. The premium experienced at school level for Looked After Children should be the same for children in the same class regardless of In Care Authority. This could be achieved by either setting an uniform premium and distributing it to In Care Authorities or by having a premium variable between authorities and distributing it via educating authorities. The Government's suggestion of variable amounts distributed by In Care Authority would instead give different amounts to children in the same school and perhaps the same class.

Service children and the per pupil premium (questions 5 and 8)

- 2.19. Hampshire has a significant number of children in service families and has taken various local initiatives to support them so the Government's proposals to provide extra funding for them should be warmly welcomed.

Pupil count for three year olds (question 6)

- 2.20. Although in previous years Hampshire has gained from the application of the assumption of 90% participation by three year olds in 2010/11 it went above that threshold. This is likely to be true more generally and so straightforward funding on the basis of actual take up should be supported.

Dual registration of pupils at pupil referral units (question 7)

- 2.21. Currently the inclusion in the pupil count of dually registered pupils, often with the main registration at a school and the subsidiary registration at a pupil referral unit, as part of both settings is a double counting. It amounts to £0.975m of DSG for Hampshire (based on January 2010 data). As a matter of general principle, double counting is not supportable. The removal of the national total of such pupils and the retention of the funds within the DSG control total, as proposed in the consultation paper, would then allow the general unit of DSG per pupil to be increased by 0.14%. Hampshire's share would be £1.009m (using January 2010 data) which

would be an increase of £0.034m compared with the current share. Thus in practice, the change should be broadly cost neutral if both local and national data move in line with each other and the funds remain within the DSG total.

Home educated pupils (question 9)

- 2.22. The consultation paper proposes that where authorities provide services or support for home educated pupils then such children can be counted as 10% of a full time equivalent pupil for DSG purposes. This amounts to £413, based on 2010/11 DSG rates, for each home educated pupil. Whilst the general recognition of these pupils within DSG is to be welcomed, there is a danger of expectations being raised too high. Concerns over children missing education and child safeguarding have raised the profile of home educated children within children's services and the scope to use DSG to support their education is useful. However the budget for such provision will need to be considered as part of the identification of budget priorities for the use of DSG.

DSG cash floor for 2011/12 (question 10)

- 2.23. The cash floor at local authority level only helped small authorities with rapidly falling rolls at the expense of all authorities and so should be opposed.

Response to the DSG and per pupil premium consultation

- 2.24. The draft response is attached as Appendix 1.

3. Learning Disability Commissioning Transfer grant, Preserved Rights grant and AIDS Support grant

- 3.1. The Department of Health issued a consultation paper on 27 July 2010 on options for distributing these three social care grants from 2011/12. The deadline for responses to the consultation is 6 October 2010.
- 3.2. The Government will decide in the Spending Review to be announced on 20 October 2010 whether to absorb these specific grants into formula grant. If they continue as specific grants, the Government wishes to consider the way the allocations to local authorities are calculated and has issued a consultation paper setting out a number of options.

Learning Disability Commissioning Transfer grant

- 3.3. This is the most significant of the three grants with a total of £1.3bn nationally.
- 3.4. From April 2009 responsibility for the funding and commissioning of social care for adults with learning disabilities transferred from the National Health Service to local government. The funding transfer largely relates to the social care packages of former patients of long-stay hospitals which closed in the 1980s and NHS campus residents moving to social care accommodation.

- 3.5. In 2009/10 and 2010/11 transfers of funds were agreed locally between the NHS and local authorities and were then reported to the Government. From 2011/12, allocations will be paid directly to local authorities by the Government via a new Learning Disabilities Commissioning Transfer grant. The consultation paper proposes two options for distributing this new specific grant.
- 3.6. In option LDT1, the specific grant would be distributed according to the learning disability transfers reported to the Government by the NHS and local authorities for 2010/11. Local authorities are asked in the consultation paper to check their reported figures for the transfer. This option would give Hampshire County Council £40.866m out of a national total of £1.3bn. This is the Government's preferred option and reflects the value of liabilities that the County Council is taking on from the Primary Care Trust.
- 3.7. In option LDT2, the new grant would be distributed using the formula for younger adults social care needs (ie, for adults aged 18 to 64) used in the methodology for distributing formula grant. This produces a significantly different distribution pattern and Hampshire County Council would receive only £20.498m. This is 49.8% lower than option LDT1 which is based on the current actual caseload and costs. Given that the services concerned are based on statutory entitlements, this would create a significant budget deficit. The consultation paper acknowledges that option LDT2 would produce a redistribution that would be difficult for local authorities to absorb.
- 3.8. Option LDT1 is clearly better for the County Council and support can be given for the Government's preferred option. This probably reflects the uneven pattern across local authorities' geographical areas of NHS provision for learning disabilities. As South East local authorities would be amongst the largest losers from using the younger adults social care needs formula, it helps to reinforce previous concerns that the formula does not fully reflect needs in the South East. The County Council lost grant when the formula was introduced in the distribution of formula grant in 2006/07.
- 3.9. The Government has considered research on the projected prevalence of learning disabilities and undertaken regression modelling to produce a formula to distribute the grant. Neither approach has provided a suitable allocation basis according to the consultation paper.
- 3.10. The County Council would receive such significantly lower grant allocation from option LDT2 that it should be ruled out in the strongest terms. The Government has been unable to derive any formula to distribute the grant and that in itself should establish that it would be quite inappropriate to use the formula from the younger adults social care needs allocation as proposed in option LDT2.
- 3.11. The consultation paper also asks whether local authorities wish to suggest any alternative methods of allocating the grant. There are no obvious alternatives to option LDT1.

Preserved Rights grant

- 3.12. The existing Preserved Rights grant provides funding to local authorities for individuals who were supported in residential care in April 1993 when changes in benefit rules were introduced. From 1993 onwards, care costs have had to be met by local authorities, following an assessment of a person's care needs. Previously those in residential care claimed Income Support to meet the costs of their accommodation and care.
- 3.13. The Preserved Rights grant of £235m nationally in 2010/11 is paid as an area based grant, using data for the number of Preserved Rights residents in each local authority in September 2002 as the basis for allocating the grant between local authorities.
- 3.14. The consultation paper outlines two options for distributing the Preserved Rights Grant from 2011/12.
- 3.15. In option PR1, the existing methodology would continue but with more up-to-date data from a survey of local authorities of the number of Preserved Rights clients as at 31 August 2009. Updating the data does result in some fairly large redistribution of the grant between local authorities. The County Council would gain 10.3%, from £5.255m to £5.798m. This is the Government's preferred option.
- 3.16. In option PR2, the Preserved Rights grant would be allocated using the adult social care relative needs formula from the methodology used to distribute formula grant. This is even more redistributive, with the County Council losing 25.5%, from £5.255m to £3.913m.
- 3.17. The numbers of Preserved Rights clients will reduce over time and at some point it might be appropriate to use a formula basis for the distribution or for the grant to be absorbed into formula grant. In the meantime, Option PR1 would be preferable for the County Council.

AIDS Support grant

- 3.18. The AIDS Support grant is currently distributed as a specific grant and provides funding for social care for those with HIV/AIDS. Grant allocations are updated annually, using figures from the Health Protection Agency. The allocation distributes 70% of the grant according to the number of individuals in each local authority who have HIV and 30% according to the number of women and children in a local authority area with HIV. Nationally, the total amount of grant is relatively small at £25.5m for 2010/11.
- 3.19. The Government wishes to move away from annual updates of the data so that they can issue multi-year grant allocations as part of the Spending Review. This would give local authorities greater certainty to plan for HIV services.
- 3.20. The consultation paper suggests two options for the future payment of the grant.
- 3.21. In Option ASG1, the Government proposes to use the same data throughout the Spending Review period. The County Council's allocation

in 2010/11 is £0.276m. It is difficult to forecast how that allocation might be affected by a data freeze as it will depend on the change in AIDS statistics in Hampshire compared with other local authorities over the Spending Review period. This is the Department's preferred option.

- 3.22. In Option ASG2, the grant would be distributed using the younger adults social care relative needs formulae. This is radically redistributive with Hampshire gaining 46.8%, from £0.276m to £0.405m. As the consultation paper comments "the relative needs formulae seems a poor reflection of where the people with HIV/AIDS currently live, and the local authorities on which the costs of services for these people fall". If AIDS Support services continue to be funded by specific or area based grants, there seems little merit on grounds of principle in supporting Option ASG2.
- 3.23. Although relatively small, the AIDS Support grant should remain as a specific grant and not be transferred in to formula grant, as that would lead to a loss of transparency.
- 3.24. The Government's response template for the three grants is attached as Appendix 2.

4. Improvement services for local authorities

- 4.1. The Department for Communities and Local Government issued a consultation paper on 25 August 2010 on the basis for funding a number of improvement services for local government, including the Improvement and Development Agency. The deadline for responses is 6 October 2010.
- 4.2. Funding for a number of specific bodies that provide services to local authorities is currently top-sliced from the national total for revenue support grant. The bodies in 2010/11 are:

	£m
Local Government Improvement & Development (formerly IDeA)	31.0
Local Government Employers' Organisation	3.7
National Foundation for Educational Research	1.3
National Institute of Adult Continuing Education	0.7
Local Government International Bureau	1.8
Local Authorities Co-ordinators for Regulatory Services	2.1
Public Private Partnerships Programme	2.9
National Youth Agency	1.5

Total	45.0

- 4.3. The Local Government Association has proposed to the Secretary of State that:

- the top-slice could be paid to a single specified body, which could be either the Local Government Association or Local Government Improvement & Development (formerly IDeA)
 - that body would then decide how best to use the funding to deliver objectives and key outcomes agreed with the Secretary of State
 - as a result, the top-slice could be reduced by 30%.
- 4.4. The consultation paper says that the Government intends to adopt this proposal, subject to any responses to the consultation which seeks respondents' views on:
- the principles of the proposal for future revenue support grant top-slice funding; and
 - whether a sole specified body should be the Local Government Association or Local Government Improvement & Development.

An end to top-slice funding

- 4.5. An alternative to providing funding for these bodies by top-slicing revenue support grant (and thereby marginally reducing every local authorities' formula grant) would be to require the bodies seek their funding directly from local authorities. Whilst that might require them to prove their worth by persuading local authorities that their services are worth paying for, the difficulties of providing reliable funding in an efficient manner led to the use of the top-slice approach.
- 4.6. In current circumstances of reducing the public spending deficit, however, the top-slice should cease and the funding should be allocated to local authorities as part of their formula grant. Individual local authorities could then decide how much of the services provided by these bodies they wish to buy in.

The sole specified body

- 4.7. The proposed response outlined in the previous paragraph makes irrelevant the Government's second question concerning which organisation should be the sole specified body. However, if the Government decides to persist with top-slicing, the County Council may wish to express a preference for the Local Government Association to be the sole specified body as, to some extent, individual local authorities could use their membership of the Association to influence how the money is allocated.

5. Formula grant distribution

- 5.1. The Department for Communities and Local Government issued a consultation paper on 28 July 2010 on changes to the methodology for distributing formula grant. This is the general revenue grant for local authorities which includes the revenue support grant and the redistributed

business rates and, for police authorities, the police principal grant. The deadline for responses to the consultation is 6 October 2010.

- 5.2. The consultation paper says that this review is “mainly looking to update and fine-tune the existing system”. The so-called ‘four block model’ will continue. This model uses four separate blocks within the formula grant system to reflect:
 - each local authority’s relative needs
 - its relative resources in terms of council tax base
 - a central allocation per head of population, and
 - a floor damping block to limit the losses suffered by authorities with below average increases in grant.
- 5.3. The Communities Secretary Eric Pickles has indicated that the ‘four block model’ is likely to continue to be used for 2011/12 and 2012/13. He is considering whether to undertake a more fundamental review of the formula grant system during this period, with the aim of introducing a new system from 2013/14. That has yet to be confirmed by the Government.
- 5.4. As a result, the options now proposed are mainly minor in their impact, with the exception of the changes required for the transfer of responsibility for concessionary travel from district councils to county councils.
- 5.5. The proposals do not address the County Council’s longstanding concerns about the transfer of resources to so-called ‘high needs’ and ‘low resources’ areas of the country, at the expense of areas such as Hampshire which the Government’s grant methodology assess as low needs and high resources (in terms of council tax base). The transfer of grant away from the South East to the North and Midlands is a continued drain on the country’s power house, resulting in a significantly disadvantaged outcome on service provision.
- 5.6. In addition, the proposed response to the Government highlights once again the losses suffered by the County Council from the Government’s decision to combine Hampshire and the Isle of Wight for Area Cost Adjustment purposes.
- 5.7. The Government has also not given any indications that it proposes to change its floor damping arrangements to make sure that local authorities at the floor, such as the County Council, receive full formula grant to cover the cost of loan charges arising from the Government’s ‘supported’ borrowing’ allocations. Since the previous Government changed its floor damping arrangements in 2006/07, the County Council has had to reduce its capital programme to avoid unfunded costs falling on the council tax.
- 5.8. The draft response to the Government’s questions on its consultation proposals is attached as Appendix 3, using the template provided by the Government. The following section provides further background on the options.

6. Formula grant distribution options

- 6.1. In total, the County Council's formula grant for 2010/11 is £146.8m after floor damping (£126.2m before applying floor damping). As the County Council is currently so far below the grant floor, it seems likely that this will continue to be the position in 2011/12 even if the County Council benefited from any formula changes or the floor was set at a lower level relative to the average change in formula grant. If that is the case, the relatively minor changes now proposed by the Government will have no impact on the County Council's grant allocation after floor damping. To that extent, the County Council could be said to have little immediate interest in the outcome of these consultation proposals. However, if the Government plans to introduce a new formula grant distribution methodology from 2013/14, it may be important to put down markers in this consultation process based on arguments of principle.
- 6.2. Some of the proposals do not directly affect the County Council, such as the changes to the police and fire formulae, but such is the complexity of the 'four block model' that the Government is unable to prevent some 'leakage' of grant to or from other types of authority.
- 6.3. The figures for the impact on the County Council in the following table are before floor damping.

Proposal	Impact on Hampshire County Council £m
Adult Services – Older People	
6.4. Option PSS1 - updating data used for the Low Income Adjustment which takes account of local authorities' differing ability to raise income from fees and charges, from 2005/06 to 2008/09.	-0.340
Although the County Council would suffer a minor loss of grant, the principle of using more up-to-date information should be supported.	
Police	
6.5. Option POL1 – updating data for police workload .	-0.036
Even though the County Council is not a police authority there is a minor amount of 'leakage' to the County Council.	
6.6. Option POL2 – using better data to reflect the impact of bars on police night-time workload.	-0.155

Again, there is a minor impact on the County Council. The

Proposal	Impact on Hampshire County Council £m
<p>Hampshire Police Authority gains significantly from this option (£10.7m), however. The County Council may wish to support proposals that give the Hampshire Police Authority adequate funding to deal with the night time economy in Hampshire's towns and cities.</p>	
<p>6.7. Options POL3 and POL4 – transferring a number of specific grants known as 'Rule 2' grants into formula grant. Option POL3 retains the Rural Policing Grant and the London/ South East Allowances Grant as specific grants. Option POL4 transfers all Rule 2 grants into formula grant.</p>	<p>POL3 +0.001 POL4 +0.001</p>
<p>These options have very minor impact on the County Council.</p>	
<p>Fire and Rescue</p>	
<p>6.8. Option FIR1 – updating the expenditure data used to calculate the formula from average figures for 1998/99 to 2000/01 to averages for 2006/07 to 2008/09.</p>	<p>-1.479</p>
<p>In principle, using more up-to-date information should be supported but the large impact on the County Council of a loss of £1.479m of formula grant is surprising, given that the County Council is not a fire and rescue authority. The proposed response strongly opposes changes which have such a large impact on the County Council. This loss highlights again that the 'four block model' is inappropriate and not fit for purpose. Changes are required to the system so that there are no side effects for the County Council from changes to the methodology for the Fire and Rescue Service.</p>	
<p>The Hampshire Fire and Rescue Authority would gain £1.993m from this option.</p>	
<p>6.9. Option FIR2 – updating expenditure data as in option FIR1 but after adding back cashable efficiency savings.</p>	<p>-1.379</p>
<p>As under option FIR1, the 'leakage' impact on the County Council is surprisingly large. The Hampshire Fire and Rescue Authority would gain £1.839m from this option.</p>	

Proposal	Impact on Hampshire County Council £m
<p>6.10. Options FIR3 and FIR4 – the consultation paper outlines two alternative options for updating the fire risk index used in the formula. The County Council would gain £0.150m under Option FIR3 but would lose £0.441m under Option FIR4. Whilst these are relatively small amounts, it is again surprising that the ‘leakage’ to a non-fire authority would be as much as that. The Hampshire Fire and Rescue Authority would gain £1.066m from Option FIR3 and lose £1.600m from Option 4.</p>	<p>FIR3 +0.150 FIR4 -0.441</p>
<p>Highways Maintenance</p>	
<p>6.11. Option HM1 - removing the indicator for day visitors from the formula because the existing data is over 20 years old and no reliable up-to-date information is available.</p>	<p>+0.019</p>
<p>This removal of out-of-date information from the Highways Maintenance needs formula has minimal effect on the County Council. However, it is surprising that the Government is unable to capture data on day visitors. Hampshire attracts many such visitors and accurate data could have a significant impact on formula grant distribution.</p>	
<p>Day visitor data is also used in the formula for Environmental, Protective and Cultural Services (see paragraph 6.13 below), where its replacement would result in a significant loss to the County Council. Until that position can be satisfactorily resolved, the use of day visitor data in the Highways Maintenance formula should be retained.</p>	
<p>6.12. Option HM2 – updating expenditure data used to calculate the formula from 2006/07 to 2008/09.</p>	<p>-0.271</p>
<p>Although the County Council would suffer a minor loss of grant, the principle of using more up-to-date information should be supported.</p>	
<p>Environmental, Protective and Cultural Services</p>	
<p>6.13. Option EPCS1 – replacing day visitor data, which is now more than 20 years old, with more recent data on foreign</p>	<p>-1.068</p>

Proposal	Impact on Hampshire County Council £m
<p>visitor nights. The consultation paper says that this new indicator is “highly correlated” with day visitors but the exemplifications show that its use introduces a significant amount of turbulence into the formula grant allocations including a loss of £1.068m for the County Council. Over £60m of grant would be transferred to London as a result of this proposal, reflecting the benefits London receives from foreign tourism.</p> <p>As mentioned in paragraph 6.11, it is surprising that the Government is unable to record data on day visitors, from which Hampshire might be expected to benefit. The Government needs to provide evidence that data on foreign visitors is a reasonable alternative.</p> <p>Even though the day visitor data is over 20 years old, its use should be retained and efforts made prior to the next review of formula grant distribution to develop robust data on day visitors.</p>	
<p>6.14. Option EPCS2 – the allocation for flood defence is currently calculated from each authority’s actual expenditure on flood defence. The consultation proposes using instead an assessment based on GIS analysis of the length of ordinary watercourses not covered by an internal drainage board. The County Council does not currently receive any formula grant for flood defence and yet the exemplification shows the County Council will lose £0.243m under the new indicator. This suggests that the proposal should be opposed as not fit for purpose.</p>	-0.243
<p>6.15. Option EPCS3 – this is a similar proposal for coast protection to use GIS-based indicators for the need to spend. Although the County Council is a minor beneficiary of the proposal, the doubts raised by the flood defence option suggests that this proposal should also be opposed.</p>	+0.038
<p>Area Cost Adjustment</p> <p>6.16. The area cost adjustment (ACA) reflects differences in the cost of service delivery around the country, predominantly labour costs.</p>	+2.464

Proposal	Impact on Hampshire County Council £m
<p>6.17. Option ACA1 – the Government is proposing changes to labour cost adjustment weights for services which use a significant amount of third party labour through contracting out. This would use evidence from company account estimates of the proportion of labour in the costs of third party contractors. It would replace a judgement-based approach. The exemplifications show that it would divert formula grant away from London and areas close to the city. Hampshire would be among the beneficiaries and on those grounds the proposal could be supported.</p>	
<p>6.18. The County Council has argued for a number of years that the Government’s decision to provide additional formula grant support for the Isle of Wight by combining Hampshire and the Isle of Wight for ACA purposes is unfair to Hampshire. The additional cost of support for the Isle of Wight should be met nationally and not solely by Hampshire. This argument should be repeated in the response to the consultation, with the Government’s longer term review of the distribution methodology in mind.</p>	
<p>Central allocation</p>	
<p>6.19. Option CAS1 and CAS2 – scaling factor for the central Allocation block. This is one of the four blocks in the Government’s distribution model, alongside the blocks for Relative Needs, Relative Resources and Floor Damping. The Central Allocation block is allocated to local authorities as a standard amount per head of population.</p>	<p>CAS1 +1.801 CAS2 -5.037</p>
<p>6.20. The Government sets control totals for the Relative Needs, Relative Resources and the Central Allocation blocks. The Floor Damping block is self financing. The Government then uses scaling factors to make sure that the total allocations for each authority add to these control totals.</p>	
<p>6.21. For the Central Allocation block, the scaling factor has been greater than 1.0 in each year since 2006/07. Some commentators have argued that because of the complex mechanisms of the ‘four block model’, it is important that the scaling factor for the Central Allocation block should be very close to 1.0 to avoid distortions in the allocation of grant.</p>	

Proposal	Impact on Hampshire County Council £m
6.22. If the Central Allocation's scaling factor is set to 1.0, the Government would be able to set the level of the Relative Needs block or the Relative Resources block, but not both, if the overall control total for the formula grant set by HM Treasury is to be matched.	
6.23. Option CAS1 would set the Central Allocation's scaling factor at 1.0. It would also keep the Relative Needs block unchanged but would reduce the Relative Resources block. This block is a negative allocation so that authorities with relatively high levels of council tax resources, such as Hampshire County Council, receive less formula grant. As a result, the County Council would gain from the proposal to reduce the Relative Resources block (+£1.801m).	
6.24. Option CAS2 would also set the Central Allocation's scaling factor at 1.0. It would keep the Relative Resources block unchanged and increase the Relative Needs block. As the County Council has relatively low assessed needs, it would lose from this option (-£5.037m).	
6.25. Option CAS1 would be preferable for the County Council.	
6.26. The County Council has argued previously that more of the formula grant should be allocated as a basic amount per client (head of population age group, road length, etc) and less as a top up to reflect higher assessed 'need' to spend per client in some areas. This argument can be repeated in the response to the consultation, in the context of options CAS1 and CAS2.	
Floor damping level	
6.27. Floor damping has been used by the Government to protect local authorities whose undamped grant allocations are significantly lower than their previous year's allocations. For authorities responsible for education and personal social services the floor increase for 2010/11 was 1.5%. The County Council benefited from the floor by £20.7m in 2010/11 as its undamped grant increase was, in fact, a reduction of 12.8% compared with its total formula grant for 2009/10.	

Proposal	Impact on Hampshire County Council £m
<p>6.28. The cost of providing floor damping is met by scaling back the grant increases for authorities that are above the floor. As a result, floor damping is self financing. Scaling back the grant increases means that ‘gaining’ authorities only receive part of their grant increases from formula changes in the ‘four block model’. If the floor damping level is set at a higher percentage and closer to the average increase, less of the gains will be allowed through. The consultation paper asks if this is desirable.</p> <p>6.29. As an authority that is currently substantially below the floor, it is in the County Council’s interest for the floor to be set as high as possible and close to the average grant increase. The disadvantage is that the County Council is more likely to continue to remain a floor authority for longer, receiving below average grant settlements.</p>	
Concessionary travel	
<p>6.30. Responsibility for concessionary travel will transfer from district councils to county councils on 1 April 2011. It will be necessary to change the formula grant methodology so that county councils receive grant formerly directed to district councils.</p> <p>6.31. The consultation paper outlines four options for removing concessionary travel from the district-level Environmental, Protective and Cultural Services (EPCS) formula. There are also six options for adding it to the county-level EPCS formula, each of which can be applied to the four district-level options. As a result, there are 24 different options to consider. The Government has only provided exemplifications for 12 of these options, arguing that a lack of resources prevents it from providing full exemplifications.</p> <p>6.32. Each option covers the changes that may be necessary to the district- and county-level EPCS formulae. In addition, it will be necessary to adjust each authority’s base position for grant allocations, for use in the floor damping calculation.</p> <p>6.33. The multiplicity of the options inevitably leaves a confusing picture. Ideally, the preferred option should minimise:</p>	

Proposal	Impact on Hampshire County Council £m
<ul style="list-style-type: none">• redistribution of formula grant between county areas• redistribution of formula grant between county and district councils in each county area, such as Hampshire• gains and losses for district councils individually within each county area.	
<p>6.34. At the district level, the most logical option outlined in the consultation paper is to:</p> <ul style="list-style-type: none">• revert back to the needs formula for district-level EPCS services used in 2005/06 prior to the introduction of a statutory national concessionary bus fare scheme to people aged 60 and disabled people• adjust the base position for floor damping purposes using each authority's net expenditure in 2008/09 on concessionary travel (the most recent data currently available).	
<p>This is option CONCF3 in the consultation paper.</p>	
<p>6.35. At the county-level, the consultation paper offers three options for a new EPCS formula for concessionary travel. The first two options are derived from regressions against past expenditure on concessionary travel. The third option is from a regression against data for concessionary travel trips.</p>	
<p>6.36. For the adjustment to the base position for floor damping purposes, the consultation paper proposes using the aggregated total for each county area of the net expenditure in 2008/09 on concessionary travel, plus two alternatives for costs previously funded by a special grant for concessionary travel:</p> <ul style="list-style-type: none">• the actual allocations of the concessionary travel special grant paid in 2009/10, or• the total for the special grant allocated pro rata to the proposed new EPCS formula (whether based on the regressions against past expenditure or concessionary travel trips).	
<p>6.37. Measured against criteria of minimising the redistribution of formula grant between areas and between county and districts, the exemplifications suggest that the first of the</p>	

Proposal	Impact on Hampshire County Council £m
two regressions against past expenditure and adjusting the base position using the actual special grant allocations is the least redistributive option. This is option CONCF5 in the consultation paper.	
6.38. The results from the Government's exemplifications range for the County Council from a loss of £5.338m to a gain of £0.327m. Option CONCF5 would provide a loss of £1.126m.	CONCF5 -1.126
6.39. The results for the Hampshire districts, in total, range from a loss of grant of £0.944m to a gain of £0.555m. Option CONCF5 shows a gain of £0.513m.	
6.40. At the level of individual district councils within these totals, there are some significant gains and losses of formula grant, ranging from gains of 15.8% to losses of 12.1%. These gains and losses are calculated by the Government as the differences between: <ul style="list-style-type: none"> • the district councils' formula grant for 2010/11 before the transfer, less their spend on concessionary travel (using information from 2008/09) • and their exemplified formula grant after the transfer. 	
6.41. Combining the exemplifications for the County Council and the total for Hampshire district councils shows losses ranging from £4.832m to £0.613m. CONCF5 provides the lowest combined loss at £0.613m.	
6.42. These exemplifications illustrate that the Government's options for concessionary travel are unsatisfactory. The 'four block model' is not sufficiently flexible to cope with transfers between tiers of authorities without causing unintended side effects.	
6.43. An alternative approach might be to distribute the grant to county councils as an unringfenced special grant but that would not resolve the difficulties of taking the formula grant away from district councils on an equitable basis.	
6.44. The exemplifications suggest that the floor damping arrangements do not have the desired effect of reducing	

Proposal	Impact on Hampshire County Council £m
the impact of the proposals to manageable proportions, particularly for the district councils.	
6.45. Option CONCF5 may be the ‘best of a bad lot’ from the options put forward by the Government. However, the Government should devise an appropriate mechanism to reflect the impact of its proposals for the transfer of concessionary travel that is as close as possible to the actual financial burden for individual authorities.	
6.46. The consultation paper also asks whether concessionary travel should be given its own sub-block within the EPCS formula. There would little to be gained from that suggestion as the existing ‘four-block model’ is quite opaque. It is hoped that any successor methodology for formula grant distribution will be much more transparent.	
6.47. However, if the Government is considering a separate sub-block for concessionary travel, it should also respond to requests over many years to establish a separate sub-block within EPCS for waste management. Expenditure on waste management at £3.3bn is approximately three times as much as on concessionary travel.	
Unadopted drains	
6.48. Under the Flood and Water Management Act, responsibility for private sewers will transfer from local authorities to sewerage and waste companies. The consultation paper suggests that the Government may remove funding from the lower tier EPCS formula. As this will not directly affect the County Council’s formula grant allocation, no comments are proposed in the response to the Government.	
Data changes	
6.49. Option DATA1 – the consultation paper proposes using quarterly instead of annual data for the indicator in the EPCS formula for people receiving Incapacity Benefit and Severe Disablement Allowance . This seems a sensible change.	+0.010
6.50. Option DATA2 – the consultation proposes using data for	+1.682

Proposal	Impact on Hampshire County Council £m
children in out-of-work families receiving Child Tax Credit to replace data on children of claimants for income support and income based jobseekers allowance which is no longer available. This indicator is used in the formulae for three of the Children's Services sub-blocks.	
6.51. This seems a sensible suggestion and the exemplifications show that the County Council would be a significant gainer. However, that might suggest that the consultation paper's claim that there is a "very strong relationship" between the indicators might be exaggerated.	
6.52. Option DATA3 – council tax data used in the formula grant calculations includes an adjustment for exemptions granted to students which is based on data at 31 May and early October. The consultation proposes using data at 31 May only, as many students are thought not to have registered by early October at the start of the academic year. This change would benefit areas with high numbers of students whilst other areas, such as Hampshire would lose. The proposal could be opposed on the grounds that using only May data could lead to the inclusion of properties that have not exempt for student occupation for the whole year.	-0.262
6.53. Option DATA4 – the consultation paper proposes changing the definition of low achieving ethnic groups used in the Youth and Community sub-block. The County Council would benefit marginally from the proposal.	+0.101
Floor damping for the City of London	
6.54. A supplement to the consultation paper illustrates treating the City of London in two parts for floor damping purposes to reflect its unique status as both an upper tier authority and a police authority. The exemplifications suggest that this would have no impact on the County Council before floor damping, but would lead to a gain of £0.145m after damping. It illustrates the lack of transparency in the current system.	+0.145 after floor damping

7. Waste management

- 7.1. The County Council has previously pointed out in responses to Government consultations on formula grant distribution matters that Hampshire's long-term waste management contract with the private sector does not attract formula grant support, unlike private finance initiative (PFI) schemes finalised more recently by other local authorities. Hampshire's contract pre-dates these PFI arrangements. The Government has been asked on a number of occasions to treat the Hampshire contract on an equal footing for formula grant purposes as other authorities' PFI schemes. These comments could again be included in the County Council's response to the current consultation.

8. Supported borrowing

- 8.1. The County Council has also previously pointed out that full revenue grant support is not provided by the Government for loan charges arising from the Government's so-called 'supported borrowing' allocations. Since a change made by the Government in 2006/07 to the floor damping arrangements, local authorities such as the County Council, that are subject to the formula grant floor, have not received any additional revenue grant towards capital financing charges arising from the Government's supported borrowing allocations. This point can again be included in the response in the hope that the anomaly could be eliminated in the proposed further review of the formula grant distribution system to be introduced in 2013/14.

9. Recommendation

- 9.1. That, subject to any comments that Cabinet may have at this meeting, the County Treasurer in conjunction with the Leader be authorised to respond to the Government's consultations on:
- changes to the Dedicated Schools Grant, as set out in Appendix 1
 - the three social care grants, as set out in Appendix 2
 - the top-slice of revenue grant for improvement services to local authorities, as set out in section 4 of the report
 - the formula grant distribution methodology, as set out in Appendix 3.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. If the Government reduces the County Council's allocation of formula grant, services will have to consider the impact in determining their proposals for accommodating the reduction.

2. Impact on Crime and Disorder:

- 2.1. If the Government reduces the County Council's allocation of formula grant, services will have to consider the impact in determining their proposals for accommodating the reduction.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals.