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Your Ref:  
Our Ref:  
Date: 21 January 2011

Dear Member

**CABINET SCRUTINY COMMITTEE - MONDAY, 24 JANUARY 2011**

I am now able to enclose, for consideration at next Monday, 24 January 2011 meeting of the Cabinet Scrutiny Committee, the following report(s) that were unavailable when the agenda was printed.

| <b>Agenda No</b> | <b>Item</b>                                                                              |
|------------------|------------------------------------------------------------------------------------------|
| 4                | <b><u>Budget 2011/2012 and Medium Term Financial Plan 2011 - 2013 (Pages 1 - 10)</u></b> |

- **Provisional Local Government Grant Settlement**
- **Medium Term Financial Plan 2011 – 2013**
- **Budget 2011/2012**

***The Budget Book has been previously circulated – Members are asked to bring their copy with them to the meeting.***

Mr P B Carter, Leader of the Council; Mr J D Simmonds, Cabinet Member for Finance; Ms S J Carey, Deputy Cabinet Member for Finance; and Mr A Wood, Acting Director of Finance; will attend the meeting at 10.00 am to answer Members' questions about the draft medium-term plan and budget proposals. Mr K Abbott, Director of Resources and Planning, has also been invited to attend the meeting, to answer Members' questions in relation to the Education elements.

Yours sincerely

**Peter Sass**  
**Head of Democratic Services & Local Leadership**



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Date: 17<sup>th</sup> January 2011

Dear Mr Lock

**Consultation on Local Government Finance (England) Revenue Support Grant for 2011-12 and 2012-13**

I am writing on behalf of Kent County Council in response to the consultation published on 13th December.

We welcome the Government's attempts to reduce the number of separate grants and the un-ringfencing of many of the remaining grants. We challenged the previous government about the practice of allocating funds through separate ring-fenced specific grants which did not allow sufficient discretion to reflect local circumstances. In the main we support how most of these transfers have been effected.

We are concerned about the misleading presentation of the impact of spending reductions, and some unexpected changes to and reductions in grant allocations which are explored in more depth in this response. We would also like to include some comments on school funding, even though technically this is not part of the Local Government Finance Settlement.

Detailed specific technical issues are covered in the in the Appendix to this letter.

**Spending Reductions**

We believe the impact of the grant reductions has been significantly misrepresented. Whilst we are not opposed to the mechanism used to allocate the Transition Grant to those authorities that have lost more than 8.9% via the "reduction in spending power" calculation, we feel aggrieved that this suggests the reduction in spending power for other authorities is less. The quoted reduction for KCC is 1.8% the reality is nearer 10%. We consider such a misinterpretation of the spending cuts

for local authorities is disingenuous to the hard work, innovation and creativity that KCC and many other local authorities up and down the country have put in to help tackle the budget deficit.

KCC has lost a net £58m in Government revenue grants compared to the original grants for 2010/11 on a like for like basis. Whilst we accept that over £10m of these reductions were announced in-year during 2010/11, we had little choice other than to absorb most of these reductions from reserves in the first instance, and thus we have to reduce our core spending from 2011/12 onwards. £58m equates to more than 10% of our total grants (excluding schools).

After taking account of unavoidable additional spending pressures (impact of inflation on contracts, additional demands in social care budgets, landfill tax, etc.) as well as some additional local spending priorities (maintaining our capital investment promises on schools and roads, Big Society bank to support social enterprise, etc.) we have to find £95m of savings in 2011/12 and £65m in 2012/13 to balance the budget. We are not increasing Council Tax in 2011/12 but the £58m net loss of grants is after including the new Council Tax Freeze Grant and thus making savings or raising income are the only options to balance the budget.

The £95m for 2011/12 compares to a Budget Requirement of £943m for 2010/11 (before the in year grant reductions) and thus equates to over a 10% reduction. Whilst we accept this is an over simplified analogy (a more complex calculation would be very hard for a layperson to understand) it is much closer to the magnitude of the real terms savings we have to make.

### **Formula Grant**

We are pleased to see that over £2bn of the grants transferred into Formula Grant have been allocated via specific tailored allocations which much more closely reflect historical allocations and the need to spend than can ever be achieved through the current formula mechanism. We are also pleased to see that the majority of transferred grants are represented in the baseline against which transitional damping is measured are the 2010/11 grant amounts. In particular we welcome that Government has taken account of the concerns expressed by many authorities in relation to the transfer of the ABG for Preserved Rights and Supporting People. There are three elements of the transfers that we would like to comment on in more detail (see below)

We are confused by the transfer of Department for Transport grants for local transport services into the Formula Grant. These grants cover Road Safety, Rural Bus Subsidy and Detrunking. The total grant for these three elements in ABG in 2010/11 was £5m (before the in year cuts and £4.4m after the cuts). We cannot understand why this has reduced to £3m when these grants have been transferred into the 2010/11 baseline. It appears that the entire Road Safety Grant has been cut. We had planned for the reduction of £0.8m between the baseline and the 2011/12 Formula allocation as announced in the Spending Review as well as the in year loss of £0.6m, but not the additional loss of £1.4m of grant in the baseline transfer. This unexpected change has led to us having to make further proposals to cut traffic control measures as a consequence. Once again it is not the cut itself we are opposed to but the lack of consultation. Will this reduction in grant be publicly explained?

Whilst we welcome that the transfer arrangements for Concessionary Fares are more equitable within each council area, we remain concerned that the overall responsibility is inadequately funded. In our proposed budget we have had to identify an additional £1.5m to support the estimated cost of Concessionary Fares and had to remove the discretion that we have previously been able to provide. The amount transferred to KCC through the baseline (£15.4m) is less than District Councils in Kent

are currently spending and we know that take-up is increasing as well as more elderly people qualifying for free travel. The extra £1.5m is an added burden on top of the grant cuts and the position will be worse if the DfT recent proposals (need to check whether this is a consultation) on revised re-imburement arrangements are not accepted.

We were taken completely by surprise to see that nationally £148m has been removed from the 2011/12 Formula Grant and £145.2m from the 2010/11 baseline (£4m for KCC) to fund the Academies programme. There has been no consultation or prior notification of this adjustment, and we cannot see where local authorities are expected to make savings outside the schools budget as a result of the transfer to academies. We would like to understand more about the rationale for this transfer and why it was not included in the Spending Review announcements.

We remain opposed to the current four block model as a basis of allocating funds. We have expressed our concerns at length in previous responses and we remain opposed to the judgemental basis on which this formula can be manipulated. The provisional settlement includes such a judgemental change to increase the amounts allocated via relative needs and a reduction in the per capita allocations. We have explored this in more depth as issue 1 in the attached appendix. Whilst we are not necessarily opposed to greater targeting of resources according to relative needs, we are concerned about the lack of consultation about such a fundamental change.

We remain concerned about the impact of the damping arrangements. We have previously explained these concerns at length. Whilst we accept the need to keep grant changes manageable, the damping mechanism operates as a severe brake on the redistribution of resources according to need. A better mechanism is needed to ensure that those councils with higher assessed needs as measured by the formula should not have to forsake this funding to pay for protection for other authorities where the formula indicates they have been over resourced in the past.

We are also opposed to the change to the damping mechanism which allows greater % reductions for those authorities which rely least on formula grant. Once again we are not necessarily opposed to the objective behind this change i.e. to protect the most vulnerable authorities, but we are opposed to such a change being introduced without prior consultation. We have explored the damping issues in more depth as issue 2 in the attached appendix.

Whilst the impact of the changes to the formula methodology and damping arrangements are not too significant for Kent we are convinced that the principle should be that any such changes are subject to consultation. We are also concerned that the formula is no longer fit for purpose as a result of the changes and we would like to see local authorities fully engaged with the development of a new formula from 2013/14.

### **Early Intervention Grant**

We are deeply concerned about the false impression being created around the Early Intervention Grant (EIG). This is not new money, it is recycled money, and we are receiving £11.5m less on a like for like basis compared to the original grants for 2010/11. Ministers continue to make statements about this funding being safeguarded when the reality is we have faced an 18% reduction in real terms (and other authorities have fared even worse). There has been no prior consultation about the magnitude of the reductions and we have been left in a situation where we have had to propose a budget without being able to explain the full impact on services to schools, families and children and it's unlikely we will be able to deliver the necessary savings from April 2011.

We had been anticipating that those elements of DfE ABG transferring into the new grant would have to take their share of the £6.9m in year cut, and we expected a further cut up to the 7.25% reduction announced in the Spending Review announcement. We were not prepared for the full impact of the in-year cuts to be borne only on those elements of DfE grants transferring into EIG (only 60% of the total DfE ABG transferred into EIG) or that there would be further reduction of over 9% in EIG.

### Outstanding Area Based Grants

There are a number of Area Based Grants which appear to have disappeared or are still to be announced. See table below.

| Other Area Based Grants                                     | Dept               | 2010/11<br>£m |
|-------------------------------------------------------------|--------------------|---------------|
| <i>Community Call for Action/Overview Scrutiny Cmmtte</i>   | <i>Home Office</i> | <i>0.026</i>  |
| <i>Stronger Safer Communities</i>                           | <i>Home Office</i> | <i>1.385</i>  |
| <i>Young People Substance Misuse Partnership</i>            | <i>Home Office</i> | <i>0.283</i>  |
| Pitt review implementation – Surface Water Management Plans | DEFRA              | 0.035         |
| School Development Grant                                    | DfE                | 2.868         |
| Extended Schools Start-Up Grants                            | DfE                | 1.554         |
| Primary National Strategy - Central                         | DfE                | 0.831         |
| Secondary National Strategy - Central Co-ordination         | DfE                | 0.670         |
| Secondary National Strategy - Behaviour and Attendance      | DfE                | 0.183         |
| School Improvement Partners                                 | DfE                | 0.646         |
| Education Health Partnerships                               | DfE                | 0.261         |
| School Travel Advisers                                      | DfE                | 0.189         |
| Choice Advisers                                             | DfE                | 0.080         |
| School Intervention Grant                                   | DfE                | 0.410         |
| 14 - 19 Flexible Funding Pot                                | DfE                | 0.419         |
| Sustainable Travel - General Duty                           | DfE                | 0.113         |
| Extended Rights to Free Transport                           | DfE                | 1.174         |
| Designated Teacher Funding                                  | DfE                | 0.086         |
| <i>Supporting People Administration</i>                     | <i>CLG</i>         | <i>0.736</i>  |
| <b>Total</b>                                                |                    | <b>11.949</b> |

It is clear that these grants have not transferred into Formula Grant, Early Intervention Grant or Dedicated Schools Grant. We are awaiting announcement on £1.7m of Home Office Grants and the £0.7m Supporting People Administration Grant was cut in 2010/11. However, this still leaves £9.5m of grants (principally DfE) which appear to have ended (although £1.2m of this in relation to extended rights to free travel which we understand will be subject to a separate announcement). What is unclear is whether these funds will be allocated as separate grants or whether they are lost. If the latter it makes a mockery of announcements at the time of the Spending Review that the reductions in Government Grant would be an average of 7.25% in real terms

### Council Tax Freeze Grant

We are pleased this grant will work independently for different authorities on the same Council Tax bill. We are also pleased to see that funds will be available throughout the Spending Review period to compensate authorities for the “lost” tax income as a result of the freezing of Council Tax in

2011/12. We fully support the freezing of Council Tax for 2011/12 and would like the grant extended to support further freezes in future years as the burden of this very visible tax has become too great for many residents.

### **New Homes Bonus**

We are not convinced that the money being spent on this grant will achieve the desired result to stimulate the building of new homes or new affordable homes. We have responded separately about the operation of the New Homes Bonus Grant. However, as part of our response to the provisional Local Government Finance Settlement we wish to restate our opposition to the suggestion that extra funds for this grant should be top sliced from the Formula Grant. The introduction of three year grant settlements (we understand why the current settlement is only 2 years in advance of a long overdue overhaul of the local government funding system) was a huge step forward in terms of financial stability and planning for local authorities. Any top-slice from grants previously announced would be a retrograde step.

### **Highways Capital**

We welcome the transfer of funding for highway maintenance from supported borrowing to grant. However, we remain concerned that the investment in roads maintenance is not sufficient to meet growing demand from increasing traffic volumes, excessive winter damage, and historical under funding of highway maintenance. All of these point to major problems in the future. We would welcome the opportunity to explore with government radical options to fund necessary transport infrastructure improvements and maintenance without adding to the burden of general taxation.

### **Schools Funding**

Although not formally part of the Local Government Finance Settlement we feel we must take this opportunity to comment on the Dedicated Schools Grant and the impact on schools budgets.

We are pleased that the grant has been protected in cash terms although this will still mean many schools will be worse off in real terms. All schools will continue to face some unavoidable inflationary pressures (such as the full year impact of the 2.3% September 2010 teachers pay award which will amount to £5m for schools in Kent and has not been funded) and at this stage we do not know whether teachers will get any further pay award. We and our Schools Funding Forum welcomed the opportunity to determine the assimilation of Standards Funds and other specific grants into the DSG although we regret the DfE's removal of a key power of the Schools Funding Forum (without any consultation) means that the local ability to tackle the inequitable distribution of some of the more anomalous grants e.g. Excellence in Cities, and manage the assimilation of Standards Fund is now, in effect, curtailed.

We are concerned about the imposition of the Pupil Premium via a crude measure of free schools meals. We already have well devolved needs led formula in Kent which has evolved working with schools to allocate funds in an equitable manner which does not lead to perverse incentives or unintended consequences. This formula results in a variation of between £2,900 to £6,100 per pupil between the least and most needy schools. This range is already very broad and if anything we feel disadvantages the "average" schools. The Pupil Premium will only increase this spread of funding.

We remain concerned about using free school meals. This relies on parents registering their eligibility. Some parents do not register for a wide range of reasons. We have also noticed a marked increase in eligibility as some schools have encouraged parents to register in order to qualify for the Premium. This will have a knock on consequence for the number of free meals which have to be funded and a range of other local authority budgets which rely on free school meal eligibility e.g. Freedom Pass income. Surely, this is an unintended consequence of the policy?

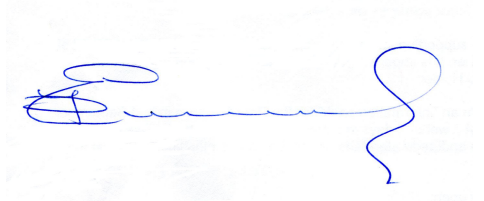
We remain concerned that the reductions to both DSG and the Formula Grant to fund the expansion of Academies have not been properly considered. It is simply unrealistic to assume that the local authority can make the structural changes following the transfer of academies on a pro rata basis. Such reductions leave services such as support for school improvement vulnerable for those schools which are not transferring to academies. Often these are the very schools which benefit most from the improvement services.

We are extremely concerned about the significant reductions in schools devolved capital allocations. The impact for a typical two form entry primary school is a loss of £36k, the loss for a typical secondary school is £82k. Many schools have made investment decisions to improve their buildings and assets on the basis of the devolved capital grants and will now be left with unmanageable debts. We will do what we can to help these schools but the increasing centralisation of school funding and the apparent loss of powers for local Schools forum make this increasingly difficult.

### **Conclusion**

I hope that these comments are useful. I would like to assure you that KCC is committed to delivering the Coalition Government's programme to reduce public spending to address the national budget deficit and we must work closely together and not seek to pass blame for inevitable spending cuts between ourselves. We would also like to offer to work with CLG officials in the early stages of the fundamental review of the formula grant methodology which we consider to be fundamentally flawed.

Yours sincerely,



John Simmonds  
Cabinet Member for Finance



## MORE DETAILED RESPONSE ON SPECIFIC ISSUES

### Issue 1: WEIGHTINGS BETWEEN THE GRANT MODEL BLOCKS

In our response to Q15 of the Grant Distribution Consultation we took issue with the statement that the Central Allocation “is not distributed according to relative needs or resource” since the detail for each authority is calculated with reference to the threshold value of both, and noted that the groupings used for the needs and for the resources are different so the net value of the constants will vary in some cases.

We also noted that the methodology used in the Central Allocation block is clearly flawed since the calculations result in the gross Needs and gross Resources reducing during the Comprehensive Spending Review 2007 period.

Q16 of the Grant Distribution Consultation asked whether local authorities would prefer Ministers to be able to set judgemental weights for the Relative Needs Amount (CAS1) or the Relative Resource Amount (CAS2).

The options included in the Consultation suggested very limited changes to the shares in the three main blocks of the grant model:

| Change in percentage share<br>from 2010-11 Settlement | Relative<br>Needs | Relative<br>Resources | Central<br>Allocation |
|-------------------------------------------------------|-------------------|-----------------------|-----------------------|
| <b>Grant Distribution Consultation</b>                |                   |                       |                       |
| Option CAS1                                           | 0.0%              | 1.0%                  | -1.0%                 |
| Option CAS2                                           | 1.6%              | 0.0%                  | -1.6%                 |
| <b>Provisional 2011-12 Settlement</b>                 | 10.0%             | 0.0%                  | -10.0%                |

We noted that the relationship between the Need and Resource components of the Central Allocation will impact on the results of either option, and said that “Without the full grossed up reworked totals inherent in these two options it is difficult for any council to offer a judgement since the Original Block totals do not identify the full distributional effect of the Need and Resource assumptions.”

**We are therefore surprised and very concerned that the changes included in the 2011-12 and 2012-13 Provisional Settlements are far more dramatic than indicated in the Consultation, with changes of +/- 10%.**

The grant model is so lacking in transparency that it is not possible to ascertain how many authorities have been adversely affected. Less grant is being distributed on the basis of Central Allocation core needs and resources (which are set at the threshold per head of population for the lowest local authority in each authority class). More grant is now allocated to authorities on the basis of the share of need above threshold and reduction in grant arising from the share of resources above threshold.

This will significantly change the distribution of grant prior to applying damping by not recognising the core need and focusing more grant towards those authorities with higher need and lower resources.

This calculation of Formula Grant will also impact the base on which the additional Transitional Grant is calculated.

Comparison of the figures for the Original Blocks to the Reworked Model (which reflect all the Need and Resource assumptions) gives a fuller picture of the Formula Grant distribution.

| Formula Grant<br>- England | 2008-09<br>Settlement | 2009-10<br>Settlement | 2010-11<br>Settlement | 2011-12<br>Provisional<br>Settlement | 2012-13<br>Provisional<br>Settlement |
|----------------------------|-----------------------|-----------------------|-----------------------|--------------------------------------|--------------------------------------|
|                            | £m                    | £m                    | £m                    | £m                                   | £m                                   |

#### ORIGINAL BLOCKS

|                                                                     |                   |                   |                   |                   |                   |
|---------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Grants rolled in                                                    | 0.000             | 0.000             | 0.000             | 2,028.395         | 2,004.823         |
| Relative Needs [above the authority with lowest value per head]     | 17,046.679        | 17,519.003        | 17,972.395        | 18,950.886        | 17,352.492        |
| Relative Resources [above the authority with lowest value per head] | -6,211.530        | -6,383.637        | -6,548.845        | -6,073.417        | -5,561.160        |
| Central Allocation                                                  | 12,516.466        | 12,863.268        | 13,196.169        | 9,954.924         | 9,115.285         |
| Police Grant                                                        | 4,136.051         | 4,253.197         | 4,373.503         | 4,546.388         | 4,224.451         |
| Isles of Scilly                                                     | 2.151             | 2.218             | 2.281             | 2.599             | 2.599             |
| <b>Total</b>                                                        | <b>27,489.818</b> | <b>28,254.048</b> | <b>28,995.502</b> | <b>29,409.775</b> | <b>27,138.490</b> |

| Formula Grant<br>- England | 2008-09<br>Settlement | 2009-10<br>Settlement | 2010-11<br>Settlement | 2011-12<br>Provisional<br>Settlement | 2012-13<br>Provisional<br>Settlement |
|----------------------------|-----------------------|-----------------------|-----------------------|--------------------------------------|--------------------------------------|
|                            | £m                    | £m                    | £m                    | £m                                   | £m                                   |

#### REWORKED MODEL

|                          |                   |                   |                   |                   |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Grants rolled in         | 0.000             | 0.000             | 0.000             | 2,028.395         | 2,004.823         |
| Gross Needs              | 56,355.765        | 54,510.161        | 52,952.130        | 38,759.199        | 35,671.860        |
| Gross Resources          | -32,999.149       | -30,506.527       | -28,327.411       | -15,926.806       | -14,765.243       |
| COWS                     | -5.000            | -5.000            | -5.000            | 0.000             | 0.000             |
| Fire adjustment          | 0.000             | 0.000             | 0.000             | 0.000             | 0.000             |
| Police Grant             | 4,136.051         | 4,253.197         | 4,373.503         | 4,546.388         | 4,224.451         |
| <b>FG before damping</b> | <b>27,487.667</b> | <b>28,251.830</b> | <b>28,993.221</b> | <b>29,407.176</b> | <b>27,135.891</b> |
| Damping                  | 0.000             | 0.000             | 0.000             | 0.000             | 0.000             |
| Isles of Scilly          | 2.151             | 2.218             | 2.281             | 2.599             | 2.599             |
| <b>Total</b>             | <b>27,489.818</b> | <b>28,254.048</b> | <b>28,995.502</b> | <b>29,409.775</b> | <b>27,138.490</b> |

Once again the total value of needs and resources calculated within the full grossed up grant model is reducing through the Provisional Settlement period. During the two year timeframe the calculated needs have reduced by £3.1bn (- 8.0%) and the resources have reduced by £1.2bn (- 7.3%) excluding the effect of the grants rolled in (- 1.2%).

## **Issue 2: FLOOR DAMPING LEVELS**

In 2010-11 £11.8m of KCC's Relative Needs calculation is taken as a contribution to supporting the floor damping of other authorities. Despite this, KCC's council tax is currently 9th lowest out of the 27 counties (including fire council tax to ensure comparability).

We are disappointed that there was no prior Consultation for authority's views on the four bands of floor damping applied to both upper and lower tier authorities.

Since the distribution within the Formula Grant model has been skewed away from the core funding, by reducing the share contributed by the Central Allocation (CA), towards the share distributed on the basis of the value above the CA thresholds.

In view of the lack of justification for the scale of this change or for the methodology used we are not convinced that applying multiple floor damping rules, based on thresholds reflecting authorities' reliance on Formula Grant to finance their budget requirement, is either logical or fair.

As a result of the proposed damping KCC will be losing increasing amounts of our Relative Needs calculation (in addition to the loss of core funding due to the lower priority of the Central Allocation). The provisional settlements identify contributions of the damping mechanism of £16.6m in 2011-12 and £22.0m in 2012-13.

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