

Leicester  
City Council

Finance, Resources and Equal  
Opportunities Scrutiny Committee  
Cabinet

19 September 2002

23 September 2002

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**Revenue Grant Distribution Review – Leicester’s Response**

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**Report of the Chief Finance Officer**

**1. Purpose of the report**

- 1.1 This report recommends a response to the Government’s Revenue Grant Distribution Review (RGDR).

**2 Summary**

- 2.1 The RGDR was launched just after the Local Government Finance Green Paper in 2000, with the aim of replacing the Standard Spending Assessment (SSA) with a new revenue grant distribution mechanism from 2003/04. On 8 July, the Government published a consultation paper setting out options for a new system. The Government has asked Authorities to provide their comments on the proposals by 30 September.
- 2.2 There is an opportunity for the Review to reverse the decline in the Council’s funding, but there is also a risk that the Review could merely extend (or worsen) the current funding inequities. It is an extremely important issue for the Council.
- 2.3 The consultation presents numerous options and leaves the door open for the Government to use alternative options that are not included in the current proposals. The final system will not be known until the Government announce the provisional finance settlement in late November. Present options range from loss of grant for Leicester of £9m to gains of up to £20m.
- 2.4 Over the past several months the Council has made its case to government for a fair amount of funding from the new system. There are 4 issues in particular that we are concerned about in relation to the new system:

- Area Cost Adjustment – the present system allocates too many resources to London and the South-East to reflect regional pay differences and needs to better reflect actual additional costs;
- Deprivation Funding – this needs to be protected (if not increased) within mainstream local government funding;
- Ethnicity Funding – Leicester receives £13m p.a in the current system in recognition of its culturally diverse community. The Council is concerned that this may be diluted or removed;
- Persons from Abroad – new funding streams for the additional education and social services costs associated with the recent arrival of EU-citizens to Leicester are essential.

2.5 It is pleasing that in relation to deprivation and ethnicity the consultation options are, generally, capable of addressing our concerns. In relation to Persons from Abroad (PFA) separate proposals are awaited in relation to targeted Education grant. There are no proposals in relation to PFA in Social Services. Options relating to the area cost adjustment are disappointing and do not adequately address our fundamental concerns.

2.6 The consultation paper also includes options to change the basis of “resource equalisation” that underpins the present system. The proposals have the effect of redistributing grant from authorities with low SSA and relatively high taxbases to authorities with high SSA and low taxbases. If implemented, the proposal would significantly benefit Leicester.

2.7 It is proposed that our response to the consultation paper will take two forms. Firstly, a response based upon the 4 key issues raised above in relation to the specific proposals for each major spending block in the consultation paper. Secondly, a technical response, addressing the specific questions that the Government has asked Authorities to comment on.

2.8 This paper is concerned with the first aspect of the Council’s response. The technical response will be based upon the broad proposals set out in this paper.

### **3. Recommendations**

3.1 Cabinet is asked to :-

- i. note that the Government has taken account of some of the issues on which the Council has made representations in the draft proposals. However, further efforts are required in order to persuade Government to ensure they are included in the final system;
- ii. agree the principles guiding Leicester’s response as set out in paragraph 3 of the supporting information;
- iii. support the issues we propose to address in the response to the consultation paper, as set out in the supporting information
- iv. delegate responsibility to the Chief Finance Officer to submit the Council’s formal response on the consultation paper to Government, in line with the proposals in this paper
- v. authorise the CFO to vary the response to reflect the consensus view of SIGOMA (the Special Interest Group of Municipal Authorities) and HEASIG (the

High Ethnicity Authorities Special Interest Group); and to address any new issues which might arise between now and the close of the consultation period.

- 3.2 Finance, Resources and Equal Opportunities Scrutiny Committee is asked to:-
- i. note the report; and
  - ii. support the case for a fair entitlement to grant as set out in the supporting information.

#### **4. Financial and Legal Implications**

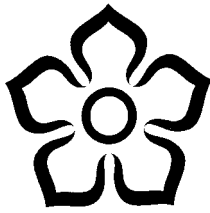
- 4.1 The Review is highly significant – 80% of Leicester’s revenue funding comes directly from the Government. Leicester has received the lowest cumulative SSA increase of all similar authorities since 1996/97: had we received only an average increase our current SSA would be £22 million higher. This would mean an extra £22 million to spend on services or £300 less council tax on a band D property in Leicester.

#### **5 Author**

Graham Feek, Financial Strategy Manager

#### **DECISION STATUS**

<b>Key Decision</b>	<b>No</b>
<b>Reason</b>	<b>N/A</b>
<b>Appeared in Forward Plan</b>	<b>No</b>
<b>Executive or Council Decision</b>	<b>Executive (Cabinet)</b>



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## Revenue Grant Distribution Review – Leicester’s Response

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### Report of the Chief Financial Officer

#### **SUPPORTING INFORMATION**

#### **1. Purpose of the Report**

- 1.1 The purpose of this report is to propose a Council response to the Government’s proposals for the Revenue Grant Distribution Review (RGDR).
- 1.2 The issues outlined in this paper will be included in the Council’s official response, following the format requested by the Office of the Deputy Prime Minister (ODPM).

#### **2. Background**

##### The SSA

- 2.1 Standard Spending Assessment (SSA) is the Government’s assessment of each local authority’s need to spend relative to other authorities and is the prime driver in the calculation of Revenue Support Grant (RSG). The Government determines the amount it expects each authority to raise from its own resources: this is known as Council Tax at Standard Spend (CTSS); and the Government pays RSG to meet the difference between SSA and CTSS. The overall effect is that, if every local authority spent at SSA, all other things being equal, council tax levels would be the same everywhere in the country. Any spending in excess of SSA is met entirely from council tax. Effectively, every £1 of additional SSA results in £1 of additional RSG.
- 2.2 The SSA distributes a fixed amount between all authorities, which results in a “zero sum gain” from any changes (i.e. if one authority’s share increases another will fall). The total SSA is made up of 6 service blocks:
  - (i) Education
  - (ii) Personal Social Services

- (iii) Highways
- (iv) Fire
- (v) Environmental, Protective and Cultural Service
- (vi) Capital Finance

- 2.3 These service blocks are in turn made up of various sub-blocks. Each sub-block is derived by multiplying client data, such as population and pupils, by a standard amount that is then increased by various “add-ons” to reflect factors such as deprivation.
- 2.4 The weightings attached to each indicator are derived from historical spending patterns that are calculated through a complex statistical technique known as regression analysis.
- 2.5 The SSA has been subject to much criticism in the past. Criticisms include:
- the historic spending patterns are no longer relevant (and at the time were skewed by rate capping requirements);
  - much of the data driving the formulae are census-derived and therefore insensitive to annual changes in a local authority’s circumstances;
  - changes in one authority’s data can have an effect on another authority’s settlement (creating a lack of predictability from one year to the next).
- 2.6 Recently, however, this major drawback (lack of predictability and stability) has been mitigated to some extent. This is due to the Government’s freeze on changes to SSA methodology while the Review was taking place, and also to the introduction of grant ‘floors’ and ‘ceilings’ which ensure that no authority’s grant changes radically from year to year. Leicester benefited from a grant floor payment in both the 2001/02 and 2002/03 settlements.

### The Consultation Proposals

- 2.7 The Government issued a consultation paper on the proposed grant system on 8 July. The options exemplified are numerous: proposals could benefit Leicester by up to £20m per annum or conversely cost Leicester in the region of £9m per annum. The Government has also said that the final proposals, which are not expected until the provisional finance settlement in late November, could include options that are not included in the consultation paper.
- 2.8 In July, I reported to Cabinet and Finance, Resources and Equal Opportunity Scrutiny Committee on the progress of the review and identified the major issues of concern to the Council. It was agreed that the Council should continue to put its case to Government for a fairer funding system, in particular, to continue to press our concerns in relation to 4 key issues:-
- Area Cost Adjustment (which diverts resources to areas with higher pay rates)
  - Deprivation
  - Ethnicity
  - Persons from Abroad (PFA)

- 2.9 Whilst it is impossible to take a view at present whether the proposals will benefit or disbenefit Leicester, it is encouraging that the Government's proposals are broadly capable of meeting the concerns in relation to deprivation and ethnicity. It is expected that further announcements will be made in relation to "targeted" education grant in relation to PFA, although no further announcements are expected regarding Social Services and PFA, which is disappointing ("Targeted" grant is a proposed new form of grant, outside the SSA system). Proposals in relation to the area cost adjustment are also disappointing and could extend the present inequity further.
- 2.10 The most significant proposals in the consultation paper that were unexpected relate to changing the system of "resource equalisation" that underpins the present system. The proposal recognises that, overall, authorities spend approximately £4bn above the total SSA which falls disproportionately upon authorities with high needs that have less ability to generate income from council tax. If the proposals are implemented Leicester could gain between £5m to £8m.
- 2.11 Clearly there is an opportunity for the Government to introduce a new system that does better reflect the needs of cities with complex needs, such as Leicester. However, there is no guarantee that this will happen, and therefore the Council needs to continue its efforts to press its case.

### **3 Consultation Response – Guiding Principles**

- 3.1 The Council has pressed for a fair entitlement to grant on a number of fronts in the past, either:-
- individually;
  - as a member of the Special Interest Group of Municipal Authorities (Outside London) SIGOMA;
  - as a member of the High Ethnicity Special Interest Group (HEASIG)
  - as a regional City, with Derby and Nottingham.
- 3.2 The scope of the RGDR means that pressing our case on a number of fronts is likely to lead to conflicts of interest or lack of clarity and integrity regarding the Council's position. It is important that we only make representations in respect of positions we believe in, not merely positions that benefit us financially.
- 3.3 The Council is now represented on the Executive Committee of SIGOMA, and hence Leicester is better able to ensure its views are taken account of through SIGOMA.
- 3.4 If SIGOMA authorities as a whole gain from the review it is likely that Leicester will also gain. Consequently, we need to fully support the efforts of SIGOMA in pressing for a fair settlement for its member authorities which are similar to us. To this end, it is considered inappropriate to take a contradictory view to SIGOMA. SIGOMA has agreed a lobbying strategy to ensure that its members have the best overall chance of receiving a fair result from the review. This strategy has cross party support at Leicester (see Appendix 1). Clearly, there may be issues of significance to Leicester where SIGOMA does not have a view and in these cases Leicester will present its own view.

3.5 Leicester's response, as set out below, is consistent with the likely view of SIGOMA, which is being formulated, albeit our response relates to the circumstances of Leicester. In the case of ethnicity there is not a common view amongst SIGOMA authorities and we will continue to work with HEASIG to put our case forward for fair funding for culturally diverse communities.

#### 4 Key Concerns

4.1 Paragraph 2.2 identifies the key concerns that the Council has in relation to the RGDR. These are summarised below, as is the current position of each in relation to the proposals. Following this, there is a more detailed analysis of proposals in relation to each of the major service areas together with our view, which will form the basis of the Council's response to the Government.

4.2 Because of the way the options have been presented it is sometimes difficult to disaggregate the components to provide a comparison with the current system, including, in some cases, funding for deprivation and ethnicity. SIGOMA and HEASIG have requested further exemplifications from the Government, which are still awaited.

#### 4.3 Deprivation

4.3.1 The Government stated in the Local Government Finance Green Paper that the new funding formulae should be simpler than the current formulae, in order to make them easier for stakeholders to understand. Whilst there is nothing wrong with the principle of simplicity, the Council was concerned that this could compromise other aims of the review, such as fairness, if simplicity meant failure to recognise complexity of need.

4.3.2 The consultation contains a mixture of proposals in relation to deprivation, some increasing the current weighting and some reducing it. It is encouraging that the aim of simplicity has not restricted the options currently being considered. The Government has stated its intention to present funding allocations in a simpler way, rather than to calculate grant on a simpler basis, which we welcome. The major areas where more weighting may be placed upon deprivation factors is within the education and potentially Environmental, Protective and Cultural Services (EPCS) formula; although there are also counter proposals to dilute deprivation within EPCS. Disappointingly, there are options to reduce deprivation factors for Social Services and Highways Maintenance. Overall the options are a 'mixed bag' regarding deprivation.

#### 4.4 Ethnicity

4.4.1 Leicester currently receives significant additional funding to support its culturally diverse population (more, proportionately, than any other authority outside London). For 2002/03 Leicester received the following allocation in respect of ethnicity in the SSA:

Education	£9.1 million
Personal Social Services	£1.0 million
Environmental, Protective & Cultural Services	<u>£2.7 million</u>
Total	£12.8 million

- 4.4.2 The Council was concerned that the RGDR would reduce the amount of ethnicity funding directed to local authorities (as part of its “simplicity” aims) at a time when supporting culturally diverse communities requires more investment rather than less.
- 4.4.3 Options for education, children’s and elderly Social Services and EPCS do include recognition of the additional costs of culturally diverse communities. However, to date it has, generally, not been possible to identify how much is included in each option. Further exemplifications have been requested from the Government.
- 4.4.4 Within the secondary education block, there is a proposal to differentiate between different types of ethnicity. The Government argues that children of Indian and Chinese descent attain above average exam success and therefore there are no additional costs required to educate them! Clearly this is a significant issue for Leicester, and is dealt with below.
- 4.4.5 In 1999/2000, ethnicity was removed from the Children’s Personal Social Services SSA. Leicester’s SSA reduced by approximately £3 million as a result. HEASIG has asked for recognition of the higher incidence and cost of ethnic minority children in care. This has been presented as an option in the consultation paper. However, other compensating adjustments to children’s Social Services would negate the benefit. This is described further below.

#### 4.5 Persons from Abroad

- 4.5.1 The Council has continued to present its case with the Government for appropriate recognition of the additional costs of recent arrivals of E.U. citizens. Current and future options for the new formula are not sufficiently responsive to this need, something we accept as inevitable. Officers have met with officials from the Department for Education and Skills (DfES) to discuss alternative options to assist in meeting the additional costs. Further proposals are expected from DfES regarding targeted grant. There are unlikely to be any such proposals in relation to Social Services funding. The Council still needs to push its case for proper funding for PFAs with the Government.

#### 4.6 Area Cost Adjustment

- 4.6.1 The ACA is the mechanism that supports the higher costs (principally pay) experienced by authorities in London and the SouthEast. It is currently based on a “General Labour Market (GLM)” approach, by which regional pay differentials are calculated from the average earnings of all inhabitants of an area. This can be contrasted with a “specific cost approach”, which would compensate higher cost authorities only for the additional amounts they demonstrably incurred (i.e. earnings of local government employees).
- 4.6.2 Whilst there is broad agreement that there is a need for such an adjustment, it is believed that the calculation needs reviewing because it over-compensates South East authorities for the actual additional costs they incur. Many other authorities share this view, especially after a late adjustment to the 2002/03 ACA - relating to 350 high-earners in the finance and media sectors who had been inadvertently omitted from draft figures - resulted in large losses for non-London authorities. The effect on Leicester was a £1.7 million loss in grant. These high earners clearly do not compete for jobs in the local government sector and should therefore be excluded from the ACA



calculation. Such a feature of the current system demonstrates its illegitimacy in distributing large sums of money to local authorities. Approximately £3.3bn (7% of total SSA) is distributed in respect of the ACA.

4.6.3 The current proposals provide a number approaches to the ACA, which range from further losses of £2m or gains of up to £1m for Leicester. Generally the options are disappointing and it seems unlikely that a “specific cost” approach for funding education will be introduced. We believe there are better options that the Government could consider, which are described below.

## **5 The Consultation Paper - Options**

5.1 There are more than 40 different options across the various spending blocks set out in the consultation paper. These range from modest amendments to the existing SSA to fundamental changes in policy. This paper concentrates on those issues which are key to Leicester for which a response to Government through the consultation process is required. Further information on the detailed proposals can be seen on the Financial Strategy pages of the intranet (<http://intranet/home>)

## **6 Education**

6.2.1 The broad proposals give some cause for optimism. The current range of options could benefit Leicester by between £1.6m and £6.2m (although it should be noted the Government may pick a different option or variant of options that doesn't benefit Leicester).

6.2.2 The key aspects of the consultation relate to the:-

- measure of deprivation;
- amount of funding for deprivation.

6.2.3 The first aspect identifies how deprivation funding will be shared between authorities, the second identifies the total amount available to meet educational deprivation.

6.2.4 There is also an option for a separate ACA method, based on house prices, solely for education. This is dealt with in section 10.

### **6.3 Measure of Deprivation**

6.3.1 It is likely that there will be two main proxies for deprivation. Firstly, a proxy for general deprivation and secondly a measure of ethnicity. The acknowledgement of ethnicity as a factor is clearly welcome.

6.3.2 In terms of deprivation the options include Income Support, either on its own or in conjunction with the Working Families Tax Credit (WFTC) . We consider that Income Support in isolation is too narrow a measure, which fails to recognise any deprivation other than that associated with claimants in receipt of Income Support. Ideally the Government should adopt SIGOMA's suggestion of basing general deprivation on the Index of Multiple Deprivation, which is used to allocate Neighbourhood Renewal Funding.

- 6.3.3 The suggested proxy for ethnicity is different in respect of primary and secondary funding. The primary block is based upon the number of children where English is an Additional Language (EAL) whereas the secondary block is based upon the ethnic origin of pupils excluding children of Indian and Chinese descent, on the basis that they have above average levels of educational attainment. As well as being at odds with the aim of improving community cohesion, this proposal would clearly have a detrimental financial impact as the pupils counting in the calculation for Leicester would reduce from 37% to 14% of the total. HEASIG has requested that all the options be re-exemplified with Chinese and Indian children included.
- 6.3.4 The services which support a culturally diverse school population are (obviously) not rationed on the basis of ethnic origin. The proposal to allocate Government funding on this basis simply because some ethnic groups are performing better overall than others is irrational and mixes up the issues of “cause and effect”. The current proposition that when a child of Indian or Chinese descent moves from primary to secondary education they go from having needs that require additional support to none at all cannot be supported.
- 6.3.5 The Government issued guidance in February 2000 to assist in raising achievement levels for ethnic minority pupils, “Removing the Barriers”. This report recognised and encouraged the need for additional support to all ethnic minority children, encouraging schemes such as mentoring and after school clubs. The proposed funding is clearly at odds with this policy. The proposal is also at odds with the basis of allocation and use of EMTAG grant, which Authorities have to match-fund.
- 6.3.6 We consider that the best proxy to measure the full extent of the additional education costs that are incurred in relation to culturally diverse communities is the current census measure of Country of Birth. Additional costs are not solely incurred in relation to language needs. HEASIG has identified other additional costs such as:-
- Increased time and cost in dealing with admissions;
  - Higher than average claims and time to process applications for pupil assistance;
  - Higher use of youth services.
- 6.3.7 At a time when community cohesion is one of the biggest challenges at a local and national level, labelling of different ethnic groups in the way suggested seems ill judged.

#### 6.4 Amount of Funding for Deprivation

- 6.4.1 PricewaterhouseCoopers, consultants who have been supporting the review, have identified two options to measure the amount required to fund deprivation:-
- (a). The cost of need which is already being met through SSA, this being either in terms of direct costs to the school, opportunity costs and other LEA costs.
  - (b). Additional “unmet need”, being costs currently incurred which are not supported. These include additional support head teachers consider necessary to fully meet the extra costs of pupils with additional needs.

6.4.2 The consultation paper suggests a cost of £1,150 for “met” need and £1,700 for “unmet” need per pupil with additional needs. Clearly, Leicester benefits from a higher amount as we are likely to have a relatively high proportion of pupils with AEN.

## 6.5 “Unmet” AEN

6.5.1 The central plank of Government reform within education is to increase educational attainment levels. Those authorities that have the least deprivation and (under the present system) have a lower SSA per pupil also have above average rates of educational attainment. This means that they are able to perform better than average with below average funding. The evidence suggests that this is principally because they face less challenges than more deprived authorities.

6.5.2 The evidence collected through PwC’s survey of Head Teachers found strong evidence for further funding for pupils with AEN to support additional assistance; this in turn frees up teaching time to use more productively or to provide other specialist support. This view is also supported at a local level. For example:

- additional Learning and Skills Assistants;
- behavioural support specialists;
- educational physiologists;
- other general teaching support

6.5.3 There is a clear need for AEN funding to better reflect the total needs that schools face in raising pupils’ attainment levels.

6.5.4 In the case of Leicester, the present options based upon funding of “met” need only could increase education funding by up to £2m per annum. This equates to less than £50 per pupil, or around £50,000 for a typical secondary school. Whilst welcome, this is unlikely to provide the necessary pump-priming to schools to enable them to invest in the schemes and programmes that could significantly increase attainment levels.

6.5.5 The alternative option of meeting “unmet”, as well as “met”, need would distribute £5.4bn nationally representing a 15% increase on existing funding levels. Locally this could equate to approximately £6m per annum of additional resources, benefiting a typical secondary school by around £150,000 per annum.

### **In the case of education funding Leicester want the Government to :**

Fully recognise deprivation in the formula, including:-

- recognising that income support in isolation is not an adequate measure of social deprivation and that the IMD offers the best range of proxies to measure such deprivation;
- recognising that all ethnic groups receive support from the LEA and it is inappropriate to exclude groups with better than average attainment levels;
- base the cost of providing for AEN upon “met” and “unmet” needs in order to reduce the gap between the attainment of the most deprived authorities and others.

## 7 Social Services

- 7.1 The general proposals for Social Services are disappointing and options range from losses of £3m to a gain of £1m to the City. The proposals contain little real scope for change in the existing system. Some options suggest reducing the weighting for deprivation. Options include some scope to take account of additional costs relating to ethnicity in children's services, although this is negated by other offsetting changes.
- 7.2 Changes to the Younger Adults block and the elderly people block are largely confined to updating cost information and different options for deprivation weighting.
- 7.3 Whilst very disappointing, the Social Services proposals must also be considered alongside the proposals for resource equalisation (see section 11). This seeks to address the gap between total local government spending and the total SSA (nationally authorities spend around £4bn more than the SSA). A major part of this gap is on Social Services. Depending upon whether proposals are implemented, this may improve the situation regarding Social Services, although still not to the extent that is required. There is a real danger that the current proposals could lead to Leicester not receiving its share of additional funding announced in the Government's Spending Review unless the full extent of the costs of deprivation are acknowledged in the new system.
- 7.4 The present system does not reflect the relative spending needs of client groups. Nationally Social Services departments spend approximately £1bn (10%) above SSA. More than 50% of this overspend is attributable to children's services. The Government needs to recognise this shortfall in the current system in respect of children's funding, in particular, and adjust funding accordingly.
- 7.5 Children's Social Services
- 7.5.1 The current proposals are broadly neutral for Leicester. This is especially disappointing, as children's Social Services represents a significant cost pressure for cities such as Leicester, and considerable funding was lost in 1999.
- 7.5.2 There is a proposal to recognise the higher incidence and cost of fostering children from ethnic minorities. This option would lead to additional funding of around £400,000 per annum, compared to a loss of £3m when ethnicity was removed from this part of the formula in 1999/00. However, this gain turns into a £100,000 loss because the Government proposes to merge the change with another one: the Government also say that authorities with higher numbers of population from lower social classes have less trouble in finding foster carers because families on low incomes are more likely to be foster carers. Leicester is ranked 8<sup>th</sup> highest in the Country according to the social class indicator used. Whilst there is a statistical link, the present foster care allowance does affect the range of backgrounds of potential foster carers, which itself can lead to additional costs through additional support and training to carers and increased recruitment costs.
- 7.6 Younger Adults

- 7.6.1 All present options disbenefit Leicester, up to a maximum of £2m (a 15% loss on the existing SSA). There are no proposals to increase the weighting for deprivation, or ethnicity. In fact one of the two options recommends diluting the weighting for deprivation, and removing the existing measure of ethnicity.
- 7.6.2 There has been no evidence provided through the review process to suggest that the weighting for deprivation or ethnicity should be increased or decreased. The option suggested has not been proved to be a better measure of the need to spend. In fact, the suggested alternative indicators are flawed in terms of their statistical value (they are including two proxy indicators that are highly correlated, i.e. they are measuring the same thing twice).
- 7.6.3 There is an option to have a separate funding block for mental health, which would cost Leicester £2m. Concerns about the technical validity of these proposals were expressed by the Government when they were introduced into the review and it was concluded that it would not be possible to complete the necessary work in time for the new system. Therefore, it is surprising that the option has been included in the consultation paper.

## 7.7 Elderly People

- 7.7.1 The options suggested include updating of assumptions of income levels of clients and possibly merging the existing separate sub-block for residential and domicilliary care into a single block. The principles underlying these options seem robust and whilst they do not benefit Leicester, the case seems strong. The main issues within the proposals relate to the level of resources allocated for ethnicity.
- 7.7.2 The current SSA does not make provision for ethnicity in respect of Social Services for elderly people. The consultation paper states that there is a significant link between ethnicity and costs, although this was based upon a relatively small sample of cases. Experience at Leicester supports this conclusion: the needs and demands of elderly people from ethnic minorities are different from other groups and therefore require specific support and assistance to meet this need. For example, in Leicester there are specialist day centres for ethnic elders, meals on wheels are sensitive to cultural needs as are services such as home care. This specialist provision comes at a cost, which should be recognised in the formula. Leicester could gain in the region of £1m if ethnicity is contained in the formula.

### **On Social Services funding Leicester would like the Government to:**

- Recognise the shortfall in the present formula, particularly for children's services;
- Recognise the additional costs of foster care faced by authorities with culturally diverse populations and recognise that there are additional costs of supporting foster carers not taken into account in the proposal;
- Ensure that proper account of deprivation and ethnicity are included in the elderly and other service blocks.

## 8 **Environmental, Protective and Cultural Services**

- 8.1 The are 4 options for EPCS ranging from a loss of £2.4m to a gain of £4.3m. The options give different weights to deprivation based upon judgement. As such it is difficult to comment on the merits or otherwise of specific proposals. Clearly Leicester benefits the higher the weighting for deprivation.
- 8.2 The key issues within the proposals relate to:-
- The inclusion of ethnicity;
  - Weighting for deprivation
- 8.3 Ethnicity is included in all 4 options, which is welcome, and is broadly the same as the allocation in the current system of £2.7m.
- 8.4 There is evidence that deprivation directly affects the costs of the services included in the EPCS block. No evidence has been presented during the review to demonstrate that the weighting should be reduced.

**In respect of EPCS Leicester would like the Government to:-**

- Recognise that deprivation is a key driver of spending need within the EPCS block and make proper provision within the formula;
- Recognise the costs of ethnicity within the formula;

9 Capital Finance

- 9.1 There are a number of options that seek to simplify this block.
- 9.2 The current SSA reduces the amount available paid to each authority by the interest assumed to be earned by the authority in respect of its cash balances and set aside capital receipts. The present calculation is notional and is highly volatile when short-term interest rates move up or down. The majority of authorities' cost of borrowing is based upon loans that are, generally, historic and therefore short term interest rates have a minimal effect upon the authority's capital financing costs.
- 9.3 There are a number of proposals to simplify this, which could benefit Leicester by £1.2m or lose up to £400k. The Council supports a proposal to remove the interest on cash balance and set aside receipts by making a compensating reduction to the debt charge element of the calculation. This reflects the reality of how authorities manage their capital finance budget which is generally managed as a ringfenced budget. Other proposals include reducing other SSA blocks, on the basis that authorities maintain balances to support all of their services. This could lead to a ludicrous situation where authorities currently spending marginally below SSA on, say, education, would appear to be spending over it purely because of technical adjustment to the formula. The favoured option would benefit Leicester by £1.2m.

**On capital finance Leicester want the Government to:-**

- Implement proposals to remove the interest receipts sub blocks from the capital finance SSA by reducing the debt scaling factor.

## 10 Area Cost Adjustment

- 10.1 Proposals on the ACA are disappointing and do not fundamentally reconsider the case for or against the present level of ACA funding; although one option does seek to redress the balance between the weighting attached to the private sector (particularly high city earners). The options could mean a modest gain of £1.2m to a further loss of over £2m. The current ACA redistributes over £13m of grant away from Leicester to London and the SouthEast.
- 10.2 A further option in relation to education only has been proposed based upon house prices (argued to be the biggest bar to recruiting teachers in London and the SouthEast), which is broadly neutral for Leicester. Such a proposal, if implemented, would make the ACA more volatile than the present system.
- 10.3 It seems unlikely that a “specific cost” approach will be considered in the case of education, which is based upon identifying the amount of the present ACA that is actually spent on additional costs of recruitment (a recent SIGOMA paper indicated that only around 40% of the education SSA is actually spent on additional recruitment costs, the remainder being used to keep council tax down).
- 10.4 SIGOMA are pressing forward with a number of options to make the ACA fairer. A major drawback with the present system, and the new proposals, is that there is not a strong enough link between the use of data on wage levels generally and the specifics of a local authority environment. In major services such as education and Social Services authorities are often competing against other authorities or particular sectors, for example the social care sector, for which an ‘average’ geographically based index is not relevant.
- 10.5 At the request of SIGOMA, ODPM have now provided exemplifications of additional models, including one based upon using the underlying data from the existing system and weighting it according to local authority occupations. This helps to ensure that comparisons of costs can be made at a more appropriate level, whilst still including the effect of the private sector where it is relevant. This option could benefit Leicester by up to £7m. In this case Leicester would still be, effectively, supporting London and the South East by £6m pa (2% of Leicester’s total revenue grant).

### **In the case of the ACA Leicester would like the Government to:**

- Implement an ACA based upon the identified additional “specific costs” relating to geography, or failing that;
- Introduce a methodology based upon a better link between overall pay costs and the impact at a Local Authority level. This should be based upon the existing ACA adjusted for occupational weightings at a Local Authority level.

## 11 **Resource Equalisation**

- 11.1 An underlying assumption within the current SSA is “resource equalisation”. This seeks to take account of different authorities’ ability to raise income at a local level through council tax. The theory is that if each authority set a budget at its SSA, all council taxes across the country would be the same. The difference between the SSA

and the level of council tax assumed to be raised at a local level is given as Government grant.

- 11.2 A major challenge to this hypothesis is that many authorities spend above SSA, nationally around £4bn or over 7%. All spend above SSA is met at a local level, through increased council tax. The current system of “resource equalisation” only works properly when national and local spend equates to SSA, therefore at present we do not have full “resource equalisation”.
- 11.3 There are proposals to increase national SSAs to reflect the national overspend against SSA. The overall effect of this is cost neutral to the Government as the assumption is that council tax levels overall would increase to fund the additional SSA.
- 11.4 Council tax is controlled at a local level, therefore the Government’s assumption of increased council tax is purely notional. However, because the assumption of council tax levels is deducted from SSA to determine local grant there is obviously an impact in terms of grant received.
- 11.5 The proposals have the effect of redirecting grant from authorities with relatively low SSA but high council taxbases to high SSA low taxbase authorities. Leicester could gain between £5m to £8m.
- 11.6 There are 3 options exemplified. The most logical way of implementing the proposal is to update each SSA total to match the national amount of spend on that service. This would ensure that the system of grant distribution was predicated on what is spent nationally on services as a starting point for deciding the individual allocations to authorities.
- 11.7 The other two methods exemplified could have side effects that are counter intuitive. For example, the proposal to uprate all SSAs by a standard percentage to bridge the gap is likely to mean that authorities have large increases in Education SSA (as this is the biggest part of the formula) although nationally there is only a modest overspend in education, whereas the additional spending pressures in social services, which represent a significant proportion of the national overspend, would not be fully recognised. Also if the Government maintains its stance on ‘passporting’ education SSA increases this option could lead to a situation where authorities would have to either raise council tax or cut other services, including Social Services, to fund the ‘passport’!
- 11.8 The third proposal to only increase Environmental, Protective and Cultural Services (EPCS) and Social Service SSAs, as these are the main areas of overspend is arbitrary and would lead to a system that is more difficult to understand and to some extent it prioritises Government spend on these two service areas at the expense of others.

**In respect of Resource Equalisation the Council would like the Government to:**

- Introduce full “resource equalisation” based upon updating all major SSA blocks to reflect actual spend.



## 12 Key Lobbying points

12.1 In summary the key issues that Leicester would like the Government to address are:

### Deprivation

Recognise fully in the new formula the impact that deprivation has on Authorities' need to spend on services, specifically:-

- Implement proposals for full "resource equalisation" through updating each major spending block to match actual spend at a national level;
- Implement a low threshold for education AEN and the base AEN funding on "met" and "unmet" needs, with a wider measure of social deprivation than Income Support;
- Ensure that proposals for elderly and younger people Social Services and EPCS take proper account of deprivation.

### Ethnicity

Recognise fully in the new system the additional costs faced by authorities that have culturally diverse populations, specifically:-

- Maintaining the existing census based measure of ethnicity in relation to AEN in the education Under 5's, Primary, Secondary and LEA blocks as being the best proxy to measure the full extent of additional education costs;
- Implement the proposal to reflect the additional cost of foster care in culturally diverse communities and remove the proposed social class indicator;
- Implement a measure of ethnicity in elderly Social Services;
- Do not reduce the weighting for ethnicity from that in the current system in the case of EPCS and Younger Social Services on the basis of there being undeniable additional costs and there being no case being provided to reduce the weighting.

### ACA

Address the problems in the current methodology of overstated cost and volatility and introduce a system that is more plausible in explaining the impact of the costs of geography at a Local Authority level, specifically:-

- Implement a system that is based upon the identified "specific cost" relating to geography, or failing that;
- Introduce a methodology based upon a better link between overall pay costs and the impact at a Local Authority level. This should be based upon the existing ACA adjusted for occupational weightings at a Local Authority level.

### Persons from Abroad

Provide additional funding streams to reflect the unfunded costs of having significant inflows of Persons from Abroad which the main grant distribution system is unable to reflect, specifically:-

- Introduce a targeted Education grant to fund additional pupils from abroad that are not captured within the pupil counts used to calculate revenue grant;
- Introduce a specific Social Services grant to reflect the additional Social Services costs in relation to PFA that are not reflected in the general Social Services formula.

### 13 Background Papers – Local Government Act 1972

**Local Government Finance Settlement 2002/03:** DTLR 28 January 2002.

**Local Government White Paper “Strong Local Leadership Quality Public Services”:** DTLR December 2001

**Revenue Grant Distribution Review – A Fair Deal for Leicester** – Cabinet 15 July 2002, Finance, Resources and Equal Opportunities Scrutiny Committee 4 July 2002

**“Local Government Finance Formula Grant Distribution – a Consultation Paper”** – ODPM July 2002

### 14. OTHER IMPLICATIONS

- 14.1 This report is concerned solely with financial issues. Other implications are shown in the table below:

Other Implications	Yes/No	Paragraph referred
Equal Opportunities	Yes	4.4, 4.5
Elderly/People on low income	Yes	6.3, 7.5, 7.7
Policy	No	-
Sustainable & Environmental	No	-
Crime & Disorder	No	-
Human Rights Act	No	-

### 11. CONSULTATIONS

All departments have been consulted on this paper.

### 12. OFFICER TO CONTACT

Graham Feek, Financial Strategy Manager ext 7495

## APPENDIX 1

Please ask for: Councillor Ross Willmott  
Direct line: 0116 252 6041  
Our ref: RW/HP/6649  
Date: 21 August 2002

Councillor Stephen Houghton  
Chair, SIGOMA  
Barnsley MBC  
Town Hall  
Barnsley  
S70 2AQ

Dear Stephen

### **SIGOMA RESOLUTION**

I am writing to let you know that the Labour, Liberal Democrat and Conservative Groups on Leicester City Council have expressed their support for the following resolution, the contents of which were agreed by the Council's Cabinet at their meeting on 15 July 2002:

"Cabinet notes that the Government is currently reviewing the local government finance system and that the outcome of the review will significantly affect the resources made available to address the many, major needs of our local communities.

Cabinet warmly endorses the arguments set out in 'Prosperity for all', the paper prepared by the Special Interest Group of Municipal Authorities outside London

In particular, it endorses the views of SIGOMA in calling for a fair deal for the majority of England's local authorities which allows them to tackle the poverty, deprivation and educational failure which particularly blights authorities outside the "golden triangle" of London and the south east by introducing a fairer Standard Spending Assessment (SSA) system.

Specifically, Cabinet strongly urges the Government to:

- Properly take account of multiple deprivation by basing its system around the Index of Multiple Deprivation (IMD).
- Address the consequences of decline including population decline which exacerbates demands upon resources rather than reducing them.
- Create a revised system for distribution of resources that removes the current implausibility of high deprivation and high council tax and ensures the more deprived the area, the more it gets from central government.

- Ensure the system reflects the ‘actual’ cost of providing services rather than a theoretical cost.
- Provide adequate revenue support for capital investment based upon need.”

I hope this will be helpful to you in our continuing campaign. I have sent a letter to each of the three Leicester MPs asking them to take this matter up with the Deputy Prime Minister.

Yours sincerely

**Councillor Ross Willmott**  
**Leader of the Council**

cc Councillor Roger Blackmore, Leader of the Liberal Democrat Group  
Councillor Roman Scuplak, Leader of the Conservative Group  
Rodney Green, Chief Executive  
Mark Noble, Service Director (Chief Financial Officer), Resources, Access and  
Diversity Department