

## Appendix 2

### Suggested responses to individual consultation questions<sup>1</sup>

#### Overall position

The MPA/MPS opposes any changes to the formula grant methodology at a time when we need stability. Whilst being essentially opposed to any change in the formula grant methodology, the MPA/MPS have agreed to respond to all the options in the event that the proposals contained in this consultation are taken forward.

#### Chapter 3 Adults Personal Social Services

Question 1: Do you agree that we should update the Low Income Adjustment (OPPSS1)?

The MPA/MPS agrees that the most up-to-date data should be used. However we continue to have serious reservations about the validity of the formula to which this low income adjustment is applied.

#### Chapter 4 Police

##### Response PO1:

Question 2: Do you agree the activity analysis should be updated and a three year average used instead of the current two year average (POL1)?

We support this proposal. It is logical to base allocations on the latest data. In most cases, recent data more accurately reflects the current and future positions better than historical data. Using three years as opposed to two years data is also logical as it provides a more stable average by smoothing the impact of variations.

##### Response PO2:

Question 3: Do you agree that the log of weighted bars per 100 hectares indicator should be used in place of log of bars per 100 hectares indicator (POL2)?

We reject this proposal to adjust the log of bars formula calculation to a 'weighted' log of bars as we believe it complicates the formula even further without considering the many factors concerned with bar density additional to bar concentration.

The objective of this part of the formula is to reflect the considerable amount of policing demand created by the 24/7 economy. Many factors affect 'bar density' such as the opening hours and the size of the bars/clubs which contribute to the amount of policing

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<sup>1</sup> These responses are based on the options and exemplifications published by CLG to date on their web-site. In theory the responses could potentially change if new options are published.

required. Updating the formula to account for the concentration of bars does not address the other equally important issues related to bar density. Therefore, maintaining the current formula until a comprehensive review is completed for 2013/14 is the fairest solution for maintaining stability.

The only sensible way of better reflecting the increased importance of the 24/7 economy would be to simply increase the weighting applied to bar density within the police formula (without changing the formula).

POL3/POL4:

Question 4: Do you agree that the three elements of Additional Rule 2 Grant mentioned in Chapter 4 'Police' paragraph 19 should be rolled into Principal Formula Police Grant (Main Grant) and therefore distributed as through the Police Allocation Formula (POL3)?

Question 5: Do you agree that the whole of the Additional Rule 2 Grant mentioned in Chapter 4 'Police' paragraph 19 should be rolled into Principal Formula Police Grant (Main Grant) and therefore distributed as through the Police Allocation Formula (POL3)?

We reject the proposals to make any changes to POL3 and POL4 which relate to the inclusion of Additional Rule 2 grants within the main formula. The specific grants amalgamated into the Rule 2 single grant stream in 2006/07 were intended to be specifically targeted to address lumpy types of expenditure which were not uniform across the country (e.g. the higher costs of employing police officers in London and the south east or to address the specific needs of rural forces serving sparsely populated area). It is therefore argued that the grants should remain as separate grants in the intervening period as it would not be appropriate to distribute them through the police formula.

## **Chapter 5 Fire**

Question 6: Do you agree that the expenditure data used to determine the coefficients should be updated (FIR1)?Question

Question 7: Should annual cashable efficiency savings be added to the updated expenditure data used to determine the coefficients (FIR2)?Question

Question 8: Would you prefer either FIR3 or FIR4 as an alternative to the current risk index?

We support the arguments put forward by the London Fire and Rescue Authority in their response. FIR 1 and 2 - We do not believe that this approach is sufficiently robust to warrant London's fire authority losing 4.6 percent of its undamped grant, as shown in the exemplifications. We question the method of updating coefficients based on new data without also assessing the validity of the independent variables. If the relationship between the variables has changed over time then an entirely new model is needed. It is not sufficient to simply re-run the model using updated data, as it cannot be assumed that the existing set of independent variables continue to be the best set of indicators for predicting current expenditure.

The MPA/MPS does not support either FIR3 or FIR4 as viable changes to the fire formula. It would prefer to see no change – reflecting its view that unnecessary formula or methodology changes should not be introduced prior to the current two year settlement round. We do not believe that FIR3 and FIR4 represent the 'best' of the choices available from the 20 that were considered by the fire formula review group and question how both these final two options have been selected

The exemplifications underpinning the proposals show a significant redistribution of funding from fire to non fire authorities i.e. a movement of £8.1m nationally. This demonstrates the extent to four block model is inherently unstable.

## **Chapter 6 Highways maintenance**

Question 9: Do you agree that the daytime visitors component of daytime population per km should be removed? (HM1)

Due to the entwined nature of the four block model MPS funding is indirectly affected by this change.

Day time visitors are likely to be a key pressure on services provided by local authorities, including highways maintenance. However the original model for the day visitor indicator is now over 20 years old and therefore well out of date. With no viable alternative we agree this data should be removed and new coefficients determined by regressions against updated expenditure data as per Question 10.

Question 10: Do you agree that the expenditure data used to determine the coefficients should be updated? (HM2)

Due to the entwined nature of the four block model MPS funding is indirectly affected by this change. In view of the need to preserve stability we are content to see this change has minimal impact on MPS funding based on the exemplifications provided in the consultation paper and therefore we agree this expenditure data should be updated should the daytime visitor component in question 9 be removed.

## **Chapter 7. Environmental, Protective and Cultural Services**

Question 11: Do you agree that foreign visitor nights is a suitable replacement for day visitors in the district-level and county-level EPCS RNFs (EPCS1)?

Due to the entwined nature of the four block model MPS funding is indirectly affected by this change. This change has a material effect on MPS funding based on the exemplifications provided in the consultation paper.

We agree that this data should be updated. The modeling for the day visitor indicator is now over 20 years old and therefore out of date. Replacing this indicator with foreign visitor nights seems a sensible option as the indicator is highly correlated with the existing indicator and has the advantages of being updatable and based on relatively robust National Statistics. Unlike alternative indicators such as English Leisure Visits

Survey, foreign visitor nights also reflect visitors on business trips and night-time leisure activities (as it is not restricted to visits completed in the same day), both of which are likely to be significant in city centres.

Question 12: Do you agree that the new GIS-based flood defence formula should be used (EPCS2)?

Due to the entwined nature of the four block model MPS funding is indirectly affected by this change. In view of the need to preserve stability we are content to see that this change has minimal impact on MPS funding based on the exemplifications provided in the consultation paper and therefore we agree that the new GIS-based flood defence formula is an appropriate basis on which to allocate funding.

Question 13: Do you agree that the new GIS-based coast protection formula should be used (EPCS3)?

Due to the entwined nature of the four block model MPS funding is indirectly affected by this change. In view of the need to preserve stability we are content to see that this change has minimal impact on MPS funding or on other London Authorities, based on the exemplifications provided in the consultation paper and are therefore satisfied that the new GIS-based coast protection formula can be used.

## **Chapter 8 Area Cost Adjustment (ACA)**

Question 14: Do you agree with the proposal to update the weights given to the labour cost adjustment (ACA 1)?

We reject the proposed changes to the labour cost shares within the ACA for highways, social care and environmental, protective and cultural services. The updated methodology ignores the indirect labour costs of suppliers (who also have contracts for a large number of labour related services not reflected as employee costs in their accounts). As a consequence the methodology under-estimates the labour costs in London and does not reflect the true cost of all cost pressures on London Authorities. Secondly despite these changes not directly affecting the police ACA the MPA/MPS actually sees a significant adverse impact from this methodology change. It also highlights the case for the area cost adjustment for police authorities to be calculated on the basis of service geography – to avoid this being affected by changes in the ACA for lower tier authorities.

## **Chapter 10 Response to Question 15. Scaling factor for central block allocation**

Question 15: Do you think that the scaling factor for the central allocation should be close to one, so that equal importance is attached to the amounts above and below the minima?

The MPA/MPS strongly believes the scaling factor for the central allocation should be close to one, so that equal importance is attached to the amounts above and below the threshold.

This proposal will go some way towards improving the model's stability in future years. The scaling factor effectively determines the way in which funding is allocated. As the scaling factor increases, funding is increasingly based on each authority's level of need (RNF above the threshold). As the scaling factor falls, funding is increasingly allocated on a per-capita basis (RNF below the threshold). It is primarily *variations* in the scaling factor, not just its absolute level, which creates distortions and instability in the four-block model. While we can accept principled decisions to change the funding criteria we believe that these should be determined by policy makers. Unfortunately, even small changes to a single authority are sufficient to bring about a change in the scaling factor and therefore cause major redistributions in funding across England. CLG has correctly pointed out that the scaling factor also depends on the size of the Central allocation, which is set by ministerial judgement. But our concern is that changes in the threshold are *sufficient*, even if not necessary, to change the scaling factor. Furthermore most of the change in the scaling factor in recent years appears to have been driven by changes in these thresholds (the relative needs and tax bases of a group of benchmark police forces) rather than by parameters of the model which are determined by ministerial judgement. The *level* of scaling factor also matters. One way to deal with the variations described above would be to set the scaling factor as a fixed parameter (rather than being determined, at least in part, by the level of thresholds). However as long as the scaling factor is not set equal to exactly one, each police force's share of funding will continue to be disproportionately affected by changes to the 'threshold' police forces whilst the closer the scaling factor is to one the smaller this problem will be.

Question 16: If so, would you prefer Ministers to be able to set judgemental weights for the Relative Needs Amount, as in option CAS1, or the Relative Resource Amount, as in option CAS2?

There is less agreement however between the MPA/MPS and London Councils as to whether Ministers should specify judgemental weights in respect of adjusting the 'amount of tax authorities are expected to raise locally', or adjusting the 'amount of funding allocated according to needs'.

## Chapter 11 Floor damping levels

Question 17: Over the next Spending Review period do you think that the floor level should be set close to the average change or such that it allows some formula change to come through for authorities above the floor?

The MPA/MPS strongly believes that the floor should be set as close as possible to the average change in grant. Setting the floor to this maximum level would:

- provide forces with a degree of stability;
- prevent any cuts falling disproportionately on floor police forces, which include the highest-need police forces in England; and protect police forces from the volatile changes in funding that are likely to result from the introduction of new population projections in 2011/12.

## Chapter 12 Transfers and Adjustments

Question 18: Which of the four options for removing concessionary travel from lower-tier authorities do you prefer (CONCF1, CONCF2, CONCF3, CONCF4)?

Question 19: Which of the six options for rolling in concessionary travel to upper-tier authorities do you prefer (CONCF5, CONCF6, CONCF7, CONCF8, CONCF9, CONCF10)?

Question 20: Should concessionary travel have its own sub-block?

Of greater concern to the MPA/MPS is the proposed transfer of concessionary travel from county councils to lower-tier authorities and distribution of this funding via Formula Grant Four-Block model. Although these changes do not directly affecting the police, the MPA/MPS actually sees a greater impact from this methodology change than for any of the options set out in the police chapter (POL 1-4). In this case the MPS could potentially lose up to £35m (before damping) from the proposals whilst overall London would benefit.

The MPA/MPS and GLA are currently under discussion how best to respond to the concessionary fares proposal. The amount the MPS could lose is dependent on damping. However decisions on floor damping are not expected to be taken by Ministers until immediately before the announcement.

This highlights the need for the Government to review the four block model as a matter of priority before the 2013/14 settlement to reduce the extent of any 'leakage' between different tiers of authority when methodology changes are made.

Question 21: Do you agree with the methodology for adjusting the base position for unadopted drains?

The MPA/MPS does not wish to respond to this question without having seen exemplifications. This is necessary for ensuring that the proposed methodology does not result in inequitable changes to authorities' damped grant.

## Chapter 13 Data1

Question 22: Do you agree that the incapacity benefit and severe disablement allowance indicators should use quarterly data rather than annual data (DATA1)?

The MPA/MPS agrees this data should be updated. Using four data sets as opposed to one will provide a more stable average by smoothing the impact of variations.

## Chapter 14 Data2

Question 23: Do you agree that children in out-of-work families receiving Child Tax Credit (CTC) should replace the current children of IS/(IB)JSA claimants (DATA2)?

We agree this data should be updated.

We also support the London Boroughs' concerns that these indicators continue to underestimate the extent of relative deprivation in London due to historically low benefit take-up rates and believe it essential that CLG works with Her Majesty's Revenue and Customs (HMRC) to make much-needed improvements to this key determinant of local authority funding to provide a more robust basis for correcting for differential take-up rates.

## **Chapter 15**

Question 24: Would you prefer that May data only is used for the student exemptions adjustment in the taxbase projections (DATA3)?

The MPA/MPS accepts that just using the May data is a preferable alternative. Although in most cases it is best to use the average of a two data sets rather than one, however, in this case we believe the October data is less representative than the May data as many new students have only just started a new year and have not yet registered for council tax (or are aware of the exemption).

## **Chapter 16**

Question 25: Do you agree that the new definition of secondary school pupils in low achieving ethnic groups should be used (DATA4)?

Due to the entwined nature of the four block model our funding is indirectly affected by this change. This change has minimal impact on MPA/MPS funding based on the exemplifications provided in the consultation paper.

*We are still talking to GLA and other London Authorities on this response.*

## **General point**

Finally going forward we remain concerned about the extent to which methodology changes for non police services can actually have a more material impact on the distribution of funding to police authorities than those changes actually proposed for the policing relative needs formula. For instance the MPS is at the floor primarily as a result of changes made to the social care formulae for London boroughs – which is responsible for a reduction in the MPS grant by over £40m (2010/11 figures). In this latest consultation paper the government is proposing changes to Transfers and Adjustments. Despite these changes not directly affecting the police the MPA/MPS actually sees a greater impact from this methodology change than for any of the options set out in the police chapter (POL 1-4). This highlights the need for the Government to review the four block model as a matter of priority before the 2013/14 settlement to reduce the extent of any 'leakage' between different tiers of authority when methodology changes are made.