

**Corporate Resources****Directorate**

Sean Nolan  
BA CPFA  
Director of Corporate Resources

County Hall  
St. Anne's Crescent  
Lewes  
East Sussex  
BN7 1SF

Telephone Lewes  
(01273) 481000  
Fax (01273) 482848  
WEBSITE: <http://www.eastsussexcc.gov.uk>



Chris Howsham  
ODPM, Zone 5/E2  
Eland House  
Bressenden Place  
London  
SW1E 5DU

date

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when responding please contact

Steve Potts

Direct line 01 273 482579

our ref

SEP/SJN

your ref

Dear Mr Howsham,

**Three-year Revenue and Capital Settlements**

Thank you for requesting my County Council's views on the proposals and issues contained in your three-year Settlements consultation paper.

I have replied below, under "Answers to specified questions" to the specific questions and issues you raise for comment and that are summarised in Annex A of your paper.

**Summary Comments:**

My County Council supports the underlying aim of the Government in building a coherent and stable relationship between central, regional and local government. In addition, we support moves to a more stable system of funding.

However my County Council would be completely opposed to the proposals for mandatory and prescriptive forward budget and forward council tax information. To potentially fetter local authorities' future council tax levying freedom considerably reduces, on a national basis, local democratic freedoms and choice. This is at a time when local autonomy is widely viewed as having become greatly diminished. This is more concerning if it is appreciated that the information to support such proposals would necessarily be unreliable in a statutory context.

By way of overview, the consultation paper suggests there are limitations to the current annual settlement process because both formula grant settlements and capital allocations are made too close to the start of the financial year. Also, specific grants may be announced too late for them to be taken into account in local budget setting decisions. These limitations hinder effective medium term financial planning and reduce confidence in the confirmed availability of resources for future years. In contrast, current annual planning means funding



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and spending decisions are based on the latest available data and information. In short, there is a trade off between more medium-term certainty against longer periods of data (and systems) inaccuracy.

There is also another trade off to consider – namely between certainty and impact on funding at the “margin”. The reality is that changes which Government may consider to be “at the margin” (e.g. the transfer of specific grant for preserved rights cases into general grant) can have significant (and cumulative) local impacts on individual councils.

The consultation paper offers a longer approach for revenue and capital settlements based on the Spending Review model of three-year settlements being rolled forward every two years. In consequence the paper also consults on:

- three-year settlements for specific grants, with exceptions where appropriate
- Issuing capital allocations for the three year-settlement period, where feasible
- three-year budgets for local councils and formal forward projections for council tax

In principle, my County Council would certainly support proposals that enable a more reliable forward indication of budget levels and consequent council tax. Financial management in local authorities would be strengthened by a regime of three-year settlements because funding in the medium term would become more predictable. However, it is difficult to see how the methodology as proposed by this consultation, in isolation, will provide a transparent improvement in current arrangements for the following reasons:

- 1) **Poor Settlement outcomes are prolonged:** For the past 3 years, East Sussex has had the worst grant settlement nationally, when compared other county councils. East Sussex County Council believes that current revenue grant methodologies are fundamentally flawed in respect of meeting the cost of providing its local services. It would be unreal to ask the County Council to support poor Settlement outcomes being kept for longer, or until the weaknesses in the current formulae, (disadvantaging the residents of East Sussex), are resolved. (Of course, if we had received the Cambridgeshire settlement of 11.2% increase this year, instead of the floor grant increase of 4.1%, our view may have been different.) I am sure that there will be a fundamental divide between “well” funded and a significant number of “poorly” funded authorities on the issue of prolonging current settlements.
- 2) **Reality of significant annual funding issues:** The annual funding issue will always be the match, at the margin, of the annual increase in grant against the annual increase in spending commitments. Spending pressures that affect local authorities are likely to remain upwardly volatile on an annual basis e.g. for East Sussex CC these would include the cost and demand for services for an elderly population, school transport requirements, the spiralling cost of waste disposal (and certain central Government policies - such as landfill tax) etc.. Many local service levels are now determined by national performance factors and influences, which increase the expectation of service users. This has, in the past, required significant additional funding and investment by my Council. These spending pressures will have to be



matched against perhaps inadequate assurances of future grant provision. Will the receipt of a “premature” grant settlement that has to last two years or more assist, or just embed, current funding problems, to therefore amplify their effect?

- 3) **Schools budgets:** There is the current proposal that schools will be ring-fence funded with Dedicated Schools Budgets. If so, the County Council net budget (i.e. net of specific grant) will reduce by approximately 40% or £200m. More importantly, so will our formula grant. The result will be that the majority of all other county council services will clearly be shown to be funded solely by council tax. Whilst this represents a simple arithmetic solution to the balance of funding, it will clearly show the limited amount of grant increase that my County Council currently receives for services outside schools.
- 4) **Short-term funding:** East Sussex CC benefits from both the floor grant stability arrangement (£4.1m) and the DfES pupil and LEA funding guarantees via “damping” FSS (£11.3m). Combined they represent a £15.4m annual funding lifeline to my County Council. We do welcome assurances from Ministers that floor grant arrangements will continue. My County Council would certainly support a longer term commitment by central Government to the levels of floor grant and that Education damping funding will be made maintained in future years.
- 5) **Interaction of reviews** - We consider it counter-productive to be considering the proposals of this consultation whilst, at the same time, the Lyon Review is being conducted and also, as mentioned above, the DfES is consulting on a fundamental review of school funding.

As a result, we believe that only a cohesive and fundamental review of the formula grant system is necessary – prior to any introduction of Dedicated Schools Budgets and three-year settlements.

### **Answers to specified questions**

As mentioned above, I now set out below my County Council’s comments to the questions specified by the consultation:

#### **Formula grant settlement**

*1. In the Government’s view, there is merit in considering a system involving a basic (“floor”) increase for each type of authority and a variable top-up depending on the characteristics of each authority. Views are invited on the future shape of the formula grant system for three-year settlements.*

As per the consultation paper, my authority also particularly supports the permanence of robust “floor” entitlements in the current grant system. The proposal to provide an advance announcement of the grant floors for each of the three years is greatly welcomed. However, to lose sight of the notion of equalisation is a very retrograde step. It must be a matter of economic principle that council tax payers across the nation should have broad assurance that the level of council tax they are paying for a given level of local service is recognisably equivalent, wherever they live. This also points to the fundamental loss of fiscal principle when Standard Spending Assessments (SSA) were replaced by Formula Spending Shares (FSS) in 2003.



However, if a new “Dedicated Schools Grant” is removed from the Formula Grant, then the amount of formula grant available to council’s will be greatly diminished and the complexity of the current FSS system would seem to become largely unnecessary.

At present, my authority believes more funding should be allocated to base (floor) funding entitlements and less to “top-ups”. At the same time top-ups must be consistent and fair. At present, we have evidence that the additional costs that East Sussex incurs arising from being part of the high-cost South East are not fairly represented by ACA factors.

Finally, we believe that, as a matter of principle, authorities should not be penalised by having to support “floor” grant arrangements. Minimum grant arrangements ought not to be measured by the cost of their penalty being top-sliced to other authorities.

*2. Views are invited on when changes in the grant formulae, data and funding totals should be allowed to happen.*

With the exception of pre-announced grant floor levels over three-years, my County Council is unable to support three-year settlements as proposed in the consultation paper. It may be the case that the introduction of Dedicated Schools budgets will greatly reduce the significance of Formula Grant in budget planning, but this could then be quite adequately managed using the current annual system. Significant annual funding issues and cost volatility will inevitably continue (as discussed in my “summary comments” above). To completely freeze funding for a longer period than this would be intuitively counter-productive. In addition, Settlements must always reflect the most up-to-date demographic and other statistics available. The current time delay in using up-to-date data (e.g. 2001 census data) is already unacceptable. We consider that adding further “artificial” delays to the introduction of currently available up-to-date data is a retrograde step.

*3. Views are sought on when, how and how far to update the data used in the formulae.*

As mentioned above, Settlements must always reflect the most up-to-date demographic and other statistics available. Freezing data for up to three years and using “selective” predictive data will produce a worse system than we have at present. Increases in population and other statistics should not carry a current financial penalty, as is the case with the delay in wholly adopting 2001 census data. What it should mean is that future needs ought not to be provided for, until empirically proven by the availability of independent and secure data.

Predictive data carries the immediate dilemma of how and when to correct its inherent inaccuracy. Would future funding always be subject to amending/claw-back procedures, which inevitably would be selective, and which, if the data was unreliable, could become extremely turbulent in outcome. At present, under Amending Report arrangements, unaffected local authorities feel unfairly penalised by having to pay for the consequences of incorrect 2001 census data affecting other authorities. If a predictive dimension is added to certain data, e.g. population data, then we believe the Government ought to underwrite the financial consequences of any inaccuracies in that predictive data. Inevitably, this increasingly adds complexity to what is already a complex funding arrangement.

Finally, the current funding system has a very significant ministerial “judgment” dimension. To introduce further “predictive” judgment into the objectivity of major funding arrangements could not be supported.



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4. *Views are invited on the Government's preference for not as a rule making retrospective amendments to the formula grant settlement, and on whether floors should be set at higher levels in change years.*

My Council certainly would, in principle, support the setting of floors at a higher level, whether they be in a change year or otherwise. This would appear to be a necessary consequence of a new regime.

At present, there is a de minimis rule for Amending Reports, but if an error affects an authority adversely, it would currently be expected to be corrected right by an Amending Report. We could not support the loss of this safeguard, bearing in mind the complexity of the Settlement and the potential funding effect of errors in methodology, data and processing. Impact at the local level should be the primary consideration, not the national context.

### **Specific revenue grants**

5 *Views are invited on:*

- *whether there are ways in which the categories of grants identified for exclusion from three-year settlements could be better incorporated into a three-year framework; and*
- *whether the types of grants identified are indeed those where allocation on a three-year basis would be most difficult.*

It would be helpful to have secure criteria to decide when services are funded by general grant and when (in principle) they should be financed by different methods of specific grant. Certain expenditure will suit specific grant funding as a transition to general grant and other expenditure may permanently not fit general grant funding e.g. where service costs do not match general grant formula methodology.

In the same way, we believe it should be recognised that certain grants will fit three-year settlements and others, such as the ones mentioned (re performance and bidding), will not. We suggest that, if the rules for certain expenditure based grants are so-determined, then local budgets would be able to predict local expenditure volumes for the longer periods.

Where specific grant funding is chosen because the incidence and volumes of a new service are not yet known, my Council would prefer no presumption that this expenditure will automatically transfer to general grant funding, particularly where the service costs are material to authorities. Also a three-year estimate of relevant expenditure may be difficult to determine where future demand is not established.

6. *Views are invited on the Government's proposals for increasing predictability of annual grants.*

In principle, we support the consultation paper's suggestion that, where a three-year approach is not desirable, then the Government will announce the national total amount, the allocation mechanism/criteria, and the minimum allocations per authority



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## Capital allocations

*7. Views are invited on the Government's proposals for treating bid-based programmes and performance rewards.*

Bid-based programmes appear at present to be ad hoc and their outcome at a local level is difficult to predict and therefore resource. We would therefore support a move from an "annual" process of bidding for capital resources (for bid-based programmes) to a more formalised three-year programme. The benefit of a more co-ordinated formality to bidding processes and a greater future certainty of resources outweighs loss of flexibilities in this instance.

*8. Views are invited on the proposed handling of funding for emergencies.*

We support the consultation paper's proposal to retain certain provisions for emergency funding centrally, particularly where events may otherwise fall heavily on local council tax payers. Maintaining these sums at comparable levels to present provision suggests a reasonable funding level from the Government's past experience of funding demand.

*9. Views are invited on how major projects should be defined. Should there be one or more cash value threshold(s) and, if so, what value should they be set at and why? Or should thresholds be set as a percentage of an authority's on-going capital programme? Or are there other approaches that could be used?*

We support the proposal to retain current flexibilities in switching funding between very large projects. This is to ensure that funding support is always available when it is needed and where it is needed.

It does not seem reasonable to have one threshold for all authorities, because a large project for a district council would be much smaller than for, say, a county council. Basing values on the sizes of capital programmes seems unnecessarily complex and prescriptive. We would support values based on (and relevant to) different classes of authority.

*10. Views are invited on whether the benefits of three-year allocations would outweigh the advantages of the current arrangements for small bid-based programmes.*

In principle, the low value of small-scale bid-based schemes entails distributing small amounts in a complex manner, and this is considered to be inefficient. It would be better if the bidding nature of these schemes were to be replaced where possible with clear criteria to be paid on a specific grant expenditure basis.

*11. Views are invited on whether a move to capital grants for emergencies or large one-off projects would be helpful.*

We would specifically support a move towards capital grants for emergencies. This is because such expenditure would often represent the replacement of assets and capitalisation, rather than expenditure on new assets. In addition, we would also favour a move towards the capital grant finance of large one-off projects. Capital grants bring much



more certainty to the capital financing process, since the current long term revenue support process is less identifiably reliable (interest rate variations and scaling factors etc). These uncertainties are particularly of concern when dealing with large one-off projects.

*12. Views are invited on what more might be done to provide three year certainty for the Private Finance Initiative.*

PFI schemes only have tentative links with the current Settlement process. A three year settlement process does not appear relevant to these projects.

### **Three year budget and council tax information**

*13. Views are invited on the proposed general approach to providing greater stability and certainty through the publication of forward indications of budget levels and council tax.*

The annual funding issue (as per para 2 above) will always be the match, at the margin, of the annual increase in grant against the annual increase in spending commitments. Spending pressures that affect local authorities such as East Sussex are likely to remain upwardly volatile on an annual basis. These increases will have to be matched against perhaps only incomplete assurances of future grant provision, (despite the improvements proposed of three year settlements). There is further uncertainty from how the Dedicated Schools Grants proposals will work through. To reiterate what I say above - will the receipt of a "premature" grant settlement that has to last two years or more assist planning certainties, or will it just embed current funding problems and amplify them?

We are strongly opposed to any suggestion of a compulsory requirement to indicate future council tax levies. Known uncertainties, compounded by gearing issues, will continue to be too great and projections will not provide the reasonable reliability required for statutory publication. Also, matters of annual council tax levy must remain an unfettered decision of members if the constitution of local government is not to be altered. To change this would reduce, in principle, local decision making and local choice. It would be at a time when local autonomy is widely viewed as having become greatly diminished.

It will, of course, remain good practice for authorities to prepare spending plans for more than one year ahead. This should be a matter of good professional practice rather than mandatory prescription. East Sussex has a good track record in managing its resources, attaining 4 out of 4 for Use of Resources under its Comprehensive Performance Assessment. It will continue to maintain a professional approach to its forward spending plans.

*14. Should there be legislation requiring parish councils and levying bodies to publish forward projections of budgets and in the case of parishes corresponding figures for contributions to council tax to mirror three-year settlements?*

The financial circumstances of parish councils and levying bodies are similar to those of local authorities. Therefore our views are the same, in principle, as expressed for question 13 above. In short, we believe it to be good professional practice to produce forward spending plans in line with three year settlements, but any statutory prescription would be inappropriate.



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15. *The Government believes that there should be a legal requirement to publish forward projections and corresponding figures for contributions to council tax. Views are invited on how a legislative basis for requiring forward projections of budgets and corresponding figures for contributions to council tax to mirror three-year settlements might best be achieved.*

For the reasons expressed above (qu.13), my County Council strongly opposes any statutory requirement to publish forward year council tax projections with council tax bill information.

These proposals appear to be a profound erosion of local discretion, reducing accountability as current annual information is confused with future, and inherently less reliable, information.

Each year there are many new spending pressures faced by services. To project a detailed awareness of these spending pressures forward for three years is currently impractical, except in broad terms. Also, to explain three years of spending change ought, if achieved with the same rigour, to be three times as complex as the current one year explanation.

Lack of knowledge of the Settlement for future years is a current major uncertainty - which the proposals of this consultation paper are seeking to address. However future knowledge of future Settlements would still only be one uncertainty removed.

Importantly, the council tax levy increase results from the marginal difference between increased spending pressures and increases in grant. The difference between these two projected figures will be necessarily volatile, and subject to “gearing”.

Annual budgets are currently set based on the latest knowledge of service pressures and stakeholder opinion. To project this information and opinion ahead for more than one year must be unrealistic.

Finally, it will remain good practice for authorities to prepare spending plans for more than one year ahead, but without the statutory prescription to publish formal projections and council tax figures.

16. *In the absence of a statutory basis for three-year budget requirements. Views are invited on the options for, and practicality of, a voluntary arrangement to the same effect, in advance of any introduction of a statutory basis.*

We see no need to change from existing arrangements. Our answers are consistent in opposing any mandatory requirement for three-year budgets. It is, for the same reasons, not appropriate to give any consideration to any “voluntary” arrangement devised by Government. Longer term budget planning should be a professional rather than legal matter.

17. *Views are sought on:*

- *what types of circumstance might merit alteration to three-year budget plans and council tax forecasts, consistent with the aims of transparency and stability underpinning three-year settlements; and*
- *what controls could be put in place to ensure that alterations are only made in these circumstances, on either a statutory or a voluntary basis.*



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A look at the national spending pressures identified within spending rounds by the LGA will indicate the breadth of spending pressures affecting local government, albeit from a national point of view. It is helpful to consider how many of these spending pressures and what detail of these spending pressures was known about, and quantifiable, two years or three years before. This exercise would be plausibly less reliable at local level, as less is known about individual national issues and less is known about the local incidence of cost.

East Sussex CC has particular future cost uncertainties. These currently include:

- the cost and demand for services for an elderly population,
- school transport requirements
- investment to achieve Government performance expectations
- local performance management investment needs
- the spiralling cost of waste disposal
- volatile energy prices
- pensions' costs, national pay awards
- interest rates
- private sector contract price increases
- local political priorities and public opinions from consultation processes

To project these forward for more than one year must be unreliable. Because of this council tax figures cannot be reliably indicated for three years ahead.

Ironically, to cover for the risk of underestimating cost may be to over-estimate expenditure and to immediately provide for higher contingency sums and reserves- in order to provide for future flexibility. This would have the effect of bigger council tax increases than required from the current annual process!

### **Context for implementation**

*18. Once initial Local Area Agreements are in place, they could in principle be aligned with the cycle of three-year settlements. Views are invited on the merits of such an approach and its practicability.*

To the extent that the financial circumstances supporting Local Area Agreements are similar to those of local authorities, then our views are the same, in principle, as we express for question 13 above.

In short, we believe it to be good professional practice to produce forward spending plans in line with three year settlements, but any statutory prescription would be inappropriate.



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19. *Views are invited on how best to move to a three-year settlement for HRA subsidy consistent with the principles in paragraph 1.12.*

This would be a matter for local authorities with Housing responsibilities.

## **Conclusions**

1. We are completely opposed to the proposals for mandatory and prescriptive forward budget and forward council tax information. To potentially fetter local authorities' future council tax levying freedom considerably reduces, on a national basis, local democratic freedoms and choice. This is at a time when local autonomy is widely viewed as having become greatly diminished. This is more concerning if it is appreciated that the information to support such proposals would necessarily be unreliable in a statutory context. To present forward information is a matter for professional good practice and many local authorities will, in any case, endeavour to present spending plans for more than one year.
2. To improve financial planning, we support the improved three year funding guarantees from the Settlement. The current annual process, if combined with pre-announced and robust floor levels may enable this. However, we would also require:-
  - a review of flaws in the current funding system, to ensure that it is fair to all authorities
  - a robust view of minimum funding (floor) entitlements, and less "top-up" funding
3. We believe that it is unhelpful at this time to be considering the rigours of three year settlements when current arrangements may be fundamentally changed by the Dedicated Schools Budget proposals, the Lyons enquiry and the council tax revaluation process.
4. The proposals for improving the early announcement and future certainty of specific grants and capital allocations are largely welcomed.

Yours sincerely,

**Sean Nolan**

Deputy Chief Executive and Director of Corporate Resources

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