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date
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when responding please contact
Steve Potts
Direct line 01 273 482579

our ref
SEP/RSG0607

your ref

Dear Ms Thandi,

Formula Grant Distribution – A Consultation Paper (July 2005)

Thank you for the opportunity to respond to this consultation paper. As mentioned in our response to the 2005/06 Settlement, the grant distribution position for East Sussex County Council is becoming progressively difficult to manage whilst maintaining current service levels and then also responding to expectations for service improvement. In recent years, East Sussex CC has received, despite damping provision, very low grant increases from Settlements in comparison to other county councils. Indeed, while I commend the existence of these damping provisions, we have received virtually nothing in increased grant for every service other than our schools. This is after “passporting” has been taken into account. Over the last four years the County Council has received just 1% more formula grant in total for all services other than our schools, after passporting has been taken into account. Despite this, we have managed to invest, for example, more than a 35% increase in elderly community care services over the same period. Inevitably this has required council tax increases to help make up the difference, but our council tax increase has been below the average of all South East counties. We have achieved this by securing efficiencies and having a clear focus on priorities. However this is not sustainable for the future without a meaningful correction in grant going forward.

It is therefore in the context of the damaging outcome to East Sussex of the last formula changes in 2003/04 that I respond to the funding change proposals outlined in this consultation paper.

After three years of having effectively a funding freeze outside of schools for this Council, this formula grant review represents a real window of opportunity that ought to be taken to correct the funding unfairness that we believe currently exists for East Sussex. This funding unfairness particularly manifests itself in the current ODPM reasoning on Area Cost Adjustment which for East Sussex is totally inadequate. We have drawn this issue to your Department’s attention in significant detail via a report by Rita Hale & Associates, but as yet this has been (to us) without satisfactory outcome. The Rita Hale report was received by the

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Settlement Working Group (for information purposes) in June of this year, and Ms Lindsay Bell responded on behalf of ODPM, but took a very limited view on the opportunities that do exist to test the plausibility of the ACA outcome both for East Sussex and, if necessary, more widely. The Rita Hale exercise provides a valuable pragmatic approach to validating this significant funding, without which it is difficult to achieve informed judgments on new ACA proposals.

In this context I set out below the “principal issues” from your Consultation Paper and I respond to the specific consultation questions in the Appendix to this letter.

Principal Issues

1. Area Cost Adjustment – As mentioned above, the first principal concern of East Sussex is the lack of plausibility of the Area Cost Adjustment funding for East Sussex and the lack of any validity check on the results by the ODPM of Area Cost Adjustment funding outcomes. The evidence of the Rita Hale paper “Briefing Paper on the Area Cost Adjustment for East Sussex County Council” straightforwardly shows labour costs for East Sussex that are comparable with those of authorities receiving much higher levels of Area Cost Adjustment. The report backs this up with corroborating other evidence including cost-of-living evidence from the Government’s own information services (e.g. Teachernet.com). As the current formula stands we receive the third lowest ACA per head of the 100 authorities who benefit from ACA funding. This is plainly at odds with the realities we face.

We do understand that the Government may not find it either practical or desirable to conduct a major review of the Area Cost Adjustments working, following the significant exercise that followed the 1996 Elliot Report. However, as part of a three yearly review of funding, we believe that it is not at all unreasonable, given the importance of the LCA/ACA factors in the distribution of FSS (and therefore RSG), to request that straight-forward reassurance exercises be carried out to validate the operation of the current ACA formula for East Sussex additional funding. In particular, this should include:

- A validity / plausibility exercise to check on the results of the analyses that generate the LCA factors
- A comparison of the average pay levels for local government services implied by the LCA factors and the average pay levels occurring at individual local authority level.

This would establish whether funding outcomes are plausible, or whether outcomes are technically better for any particular type or group of authority than for others.

If the Government is correct and the results of plausibility checks do indeed validate the majority of ACA funding, then only a few authorities, such as (we suggest) East Sussex, ought to be specifically reviewed. This needs to be undertaken as a matter of urgency bearing in mind the proposed triennial methodology freeze and the important funding consequence this is having on our local services.

However, we are concerned that there may be hidden impacts of ACA factors used elsewhere for funding formula assumptions. If these factors are used, we request that their effect be overtly represented within calculations so that the true funding incidence of ACA factors is fully identifiable.



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2. Adult Social Care - The second principal concern is to ensure that our Adult Social Care services are properly funded as a result of this Formula Review exercise. Our analysis of spend and FSS resources indicates a significant mismatch locally and nationally in apparent spending pressures currently being experienced by Services for the Elderly. We are therefore concerned by:

- significant changes in care patterns in recent years
- rising demand for personal social services (PSS) help – particularly from the very elderly
- mismatches between the cost of providing social services for the adult population and, levels of the Formula Spending Shares (FSSs)
 - for the PSS elderly and,
 - the PSS Younger adults group.

We are aware that the Department of Health has commissioned research into all three main elements of the PSS – i.e. the PSS care of children, younger adults and elderly people. In respect of Adult Social Care, we want the Department of Health to fully take into account:-

- the size of the client base implied by any new FSS formulae
- how well those implied client numbers compare with the actual client base for individual authorities and each of the main types of local authority;
- the implied unit costs of care – by age group; and
- whether or not any new formulae appear to be biased in favour of – or against – any particular type of authority.

One key indicator that we note is that only 13% of our older clients are in the “younger” 65-74year age group, whose individual care needs are significantly less than for the more elderly age groups. However, the FSS for the Elderly in East Sussex currently attributes nearly 24% of funding need to this age group. This suggests that for East Sussex, and probably nationally, the cost profile of providing services for the elderly needs biasing much more significantly towards the over 75 population.

We welcome the current research and updating of PSS formula to match actual care patterns and population needs as undertaken so far. On the whole the proposed formulae represent a considerable improvement on the current formulae. The exception for us is that we do believe the proposed Younger Adult factors to be inexplicably unrepresentative of the high local service costs that the South East incurs.

3. Combined Impact – Our third principal concern relates to the combined effects of the variety of changes that may be implemented. You will appreciate that the Consultation paper is very far reaching, particularly in terms of alternative grant system proposals and the consequences of Dedicated Schools Grant. The exemplifications give no indication of combined effects, particularly for East Sussex which exemplifies, for grant purposes, as a floor authority. The paper also deals with the “cross-cutting” effects, for instance, of resource equalisation and area cost adjustment. As a result, the Consultation paper has proposals that are difficult to interpret in a consolidated manner, raising fears of a significant and negative net funding impact for this Council.

4. Resource Equalisation - Fourthly, current resource equalisation methodology is a particular example of appearing to use Ministerial judgement to redirect resources to particular areas or types of local authority. We believe it becomes a fundamental weakness of the national formula grant distribution system if it is used as a tool of regional economic policy. If certain regions require additional resources in the view of Government, then



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Government should use a variety of other national funding tools open to it and not finance shifts by materially disadvantaging others within the local government formula grant system.

In our view, Resource Equalisation decisions, based up ANCT changes, mean that proposals simply and predictably shift grant for plainly regional economic policy reasons – mainly at the expense of county councils and south coast authorities. For East Sussex, these changes make us even more dependent on grant floor protection. As a result, the mismatch between our underlying cost pressures and formula grant allocations further widens.

5. Waste – Our fifth principal concern is the very limited consideration within the Consultation document given to the cost pressures of Waste Management impacting upon local authorities. In 2005/06, local authorities in England will spend £2.4bn on waste collection and disposal (source: cipfastats). This is more than some major service blocks in FSS calculations, such as Fire and Highways Maintenance, and it is significantly more than a number of sub-blocks. Waste Management spending pressures are also projected to significantly increase. My County Council believes that a new Waste Management FSS block should be created and that Waste Management is now too significant a service to be considered amongst the general EPCS service block. A separate block would be material to the Settlement and would improve the fairness of the grant system. It would not add to the complexity to the Settlement, and it is a significantly more material topic than a number of other proposed changes.

6. Damping and Capital Finance - Our sixth principal concern is the level of funding turbulence that may follow from the consultation proposals, their likely impact on council tax, and the ability to carry out approved programmes of capital investment.

Damping is a method of providing funding stability. However, if based on grant alone, it would not secure necessary investment in individual services that the Government may intend from specified increases Formula Spending Shares. This is particular noticeable in the way “schools damping” has secured grant for schools via passporting in recent years. Over the same period, general damping has been unable to secure, in East Sussex, the increased investment in Personal Social Services implied by national control totals without unfair increases in council tax or forcing savings onto other important local services. In addition, general damping has been unable to secure the revenue consequences of new and approved capital programmes without unfair increases in council tax.

We believe that damping, in periods of funding turbulence, should be comprehensive and robust. This means that for the sake of the residents of East Sussex and our service users – we must retain the grant floor mechanism, but with some reasonableness in the calculation of grant increases relevant to all services. We also believe that new capital investment should be secured either by specific grant damping or by capital grant, otherwise Government approved investment, particularly for significant schemes, may not be possible without unreasonable increases in council tax.

8. New Grant Systems – In principle, we are concerned that the Consultation proposals seem only to algebraically tinker with the current system to provide the same answers as at present, but via a more confused trail with fewer explicit indicators. Therefore we object to these proposals which will not provide a new more transparent grant system. Instead they will provide a more opaque and less accountable version of the current system.



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9. Three-year Settlements - 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. We are extremely concerned however that significant changes, which may appear at the margin in national terms (e.g. shifts in specific grants) may have massively significant effects on an individual council, but without any adjustment in the proposed three year formula grant allocation.

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.

10. Forward looking data - We welcome where possible the use of the most recent available data in constructing formulae and underlying analysis. As we consider three year settlements, we recognise that forward looking data is appropriate. We believe the system should be revised to cope with actual data as it becomes available, and appropriate adjustments to funding outcomes should be made in later years.

11. Sparsity – We welcome the consistent extension of sparsity factors within formulae to more proportionately represent the cost of providing services in the more rural areas.

12. Dedicated Schools Funding - A core proposal underlying the consultation is to centralise the funding of schools. It is a proposal that starkly removes local autonomy and local accountability from a major locally provided service. At the same time the proposal abandons the principle of reducing the impact of specific grants by creating one that is, of itself, larger than the remainder of Formula Grant. At present schools funding gives stabilised funding within the Settlement. It is difficult to see the service benefits of this core proposal, especially in the context of the financial limitations and contradictions, not least for the school community, that it will generate. More generally, it is vital that the proposed shift between general and specific grant that this implies, has a neutral effect on our council tax payers.

I hope you will find our responses to the consultation in my Appendix both informative and constructive. I also hope that you will give special consideration to the principal issues that I raise above in this letter. My request is for a fairer funding outcome for the council tax payers of East Sussex, in a manner that will enable us to maintain and improve efficient, quality, and also vital, core services. I believe that this will only be achieved by special consideration being given to the clear anomaly of our Area Cost Adjustment funding assumptions.

Yours sincerely,

Sean J Nolan

Deputy Chief Executive and Director of Corporate Resources



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List of Consultation Questions

Chapter 2 Schools Transfer

Comments: The Government has decided that funding for schools should be distributed at a national rather local level. This is a proposal that local authorities find difficult to accept. It removes local autonomy and local accountability. Local considerations combine at present to provide significant spending in excess of Government provision to deliver an improved local education service.

If the Government is going to accept responsibility for schools funding, we believe that it should take responsibility for funding the locally determined additional spending above the Schools FSS level. Local authorities should not be asked to fund the difference between schools budgets and schools FSS. If this funding decision is taken nationally by the Government, it should also be funded nationally. We are concerned if schools funding were to be top-sliced for damping purposes.

At the same time the proposal abandons the principle of reducing the impact of specific grants by creating one that is, of itself, larger than the remainder of Formula Grant. Taking schools out of County Fund will lead to more turbulence in future funding and greater proportionate impacts on council tax. At present Schools funding gives stabilised funding within the Settlement.

Question 1: Do you think that there should be a customised damping system?

Response: Yes – However, damping funds for new proposals should be additionally provided by the Government or, if not, by deduction from central control totals. We believe that the funding process should not be based on changes in ANCT which has unfair regional funding impact towards areas of low taxbase. If necessary, SCLT1 seems more appropriate in principle, as it impacts less on ANCT. Damping funds should not be top sliced from schools. We believe that damping should be sufficiently comprehensive to provide fair and long term funding outcomes for all services.

Question 2: Do you have comments on the Government's other proposals, to adjust the base using spend figures and to isolate police, fire and shire district authorities from the effects of the transfer?

Response: Non-education authorities should not be isolated from the effect of the DSG transfer. We believe that it is not fairly possible to isolate the financial consequences of major aspects of the Settlement from individual Local

Authority (LA) groups. Indirectly all LA groups are linked by cross-cutting funding assumptions that impact on capital finance, council tax (SANCT), fire, lower-tier services and London etc.. It is therefore not fair to isolate particular LA groups from the effects of major funding changes, such as those that are material to Education funding.

Chapter 3 New Grant System

Comments: We are concerned that one of the underlying principles behind the Consultation's grant system proposals is to obscure the link that Grant Settlements have with Government's own spending and funding assumptions. Indeed the proposal appears to be an algebraic reworking of the current system to provide the same answers as at present, in a manner purely to produce a more confused trail and fewer explicit funding assumption indicators.

Question 3: Whether we should use the proposed alternative grant system?

Response: No – My county council objects to the proposed alternative grant system. This will not be a new grant system, but a more opaque and less accountable version of the current system. What is required from a new grant system is one that “would where possible be based on objective and factual evidence which relates to need to spend on services”. In addition the system should be fairer, more intelligible and more stable. Both of these sets of principles are in accord with the Government's aims for the formula grant system in 2002. We believe that it is possible to construct a method of grant distribution which meets these criteria without sacrificing fairness in favour of undue simplicity.

Chapter 6 Education – LEA Block

Comments: Whilst this section considers sparsity EDU1, residual lecturer pensions EDU2 and LEA damping EDU3, the proposal on LEA damping is the one which is financially significant. Only a few authorities are significantly affected by LEA damping, but they are significantly affected. For damping to be effective it should be comprehensive and long term. We believe that the sparsity element should be updated for 2001 census data as in EDU1.

Question 4: Do you think we should remove the element for Further Education residual pensions?

Response: Yes -The financial consequences EDU2 of this item are not sufficient to warrant separate calculation.

Question 5: Do you think the LEA damping block should be removed?

Response: No - Whilst only a few authorities are significantly affected by LEA damping, they are significantly affected. For damping to be effective it should be comprehensive and long term. This is bound to be a minority view, by its



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nature, but it is the robust outcome which is consistent with the Government's own aims of funding stability. Local Education Authorities are still feeling the funding turbulence of change and this funding stability ought to be retained until organisational changes have taken effect.

Chapter 7 Personal Social Services

Comments: In general we welcome the review of Personal Social Services formulae in order to more closely reflect up to date care patterns and cost drivers of care. In this regard, we believe specific care should be taken in the relative weightings of the very elderly population (aged 75 years+). The reliance on 1991 census data appears very tenuous even after 10 years, without there being further delays in implementing 2001 census data. One particular issue which the formulae do not adequately deal with is "self-funders" whose resources fail or run out. A robust indicator to represent this in-year additional care need would be welcomed.

Question 6: Do you agree with the Government's proposal to implement option SSC1? If not, what alternative would you propose?

Response: Yes – we support SSC1 because it brings into the formula improved indicators of deprivation like "children without good health" - which we believe to be a very good prime indicator of need. We believe that the research undertaken by the University of York has provided for a considerable improvement on the current formula.

Question 7: Which option for updating the Foster Cost Adjustment do you prefer?

Response: SSC3 – We support the implementation of formulae that are based on up-to-date information and awareness of cost drivers. We prefer the option SSC3. East Sussex experiences real difficulties in getting foster carers. We believe that, in this case, proximity to London is a better indicator of cost pressures. Therefore "women associate professionals" appears to be a helpful additional indicator. It is an irony that FSS factors are being updated to match real service cost drivers at a time when the Government suggests that FSS is not a comparator of spend between services.

Question 8: Do you think that there should be specific floors with either ceilings or scaling factors on the children's social services FSS to limit the extent of the changes?

Response: Yes - To be consistent, we believe that damping, in periods of funding turbulence, should be comprehensive and robust. Another example of this approach would be the retention of the LEA damping block.

Question 9: Which needs formula option do you prefer– SSE1 or SSE2?

Response: SSE2 – We note the subsequent withdrawal of the SSE1 formula option. However we already believed that SSE2 is a better indicator because it uses a



bigger sample of client data. This must improve the outcome of the indicators. Care must be taken to ensure that larger samples are fully representative. We notice that the age top indicator does not appear to be sensitive to the 75-79 years residents, which appears anomalous.

Question 10: Do you agree with the proposal to revise the Low Income Adjustment to include 2001 Census data?

Response: Yes – East Sussex has significant pockets of deprivation, and this issue is shown by the outcome of the Low Income Adjustment. SSE3 highlights that older people in East Sussex are not wealthy and “older people living in rented accommodation” appears to represent this issue well. We welcome that this is also a very statistically significant indicator nationally.

Question 11: Which method of distributing the sparsity top up do you prefer?

Response: Neither – In principal, East Sussex supports the theory of sparsity to provide for the additional costs of providing services in rural areas. However, the outcomes of SSE4 & 5 are unexpectedly adverse for key rural areas. We therefore don't agree with the practical outcomes of these changes which appear to be counter intuitive. We believe that sparsity measures should be consistently calculated and applied.

Question 12: Do you favour increasing the quantum for the sparsity adjustment to more than 0.4%?

Response: Yes - Despite the counter intuitive outcomes of SSE4 &5, we do support in principle an increase from 0.4% of the sparsity quantum pending research to establish the appropriate funding level. In particular we noted the Countryside Agency paper presented to the Settlement Working Group showing considerably higher costs in rural areas.

Question 13: Which option do you prefer for the Younger Adults Social Services formula?

Response: Neither – East Sussex cannot support either option presented. Both SSA1 & SSA2 have counter-intuitive outcomes in the exemplifications for London and the South East. East Sussex has very high unit costs and the outcome of the revised formulae does not appear to reflect the high unit cost results of the client surveys that the research is said to use. These high unit costs would be particularly evident across London and the South East.

We also query undue reliance on the “Disability Living Allowance” indicator which the Government itself has criticized, believing it to have been inappropriately awarded on a national scale in recent years.



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Chapter 8 Police
(Not applicable)

Chapter 9 Fire and Rescue
(Not applicable)

Chapter 10 Highway Maintenance

Comments: In general, Highways maintenance indicators do not reflect for East Sussex the high cost base of materials and labour costs incurred. Also East Sussex has a relatively small principal road network meaning that B and C roads carry proportionately more traffic volumes, and require more maintenance. As a result we would be cautious of any proposal to extrapolate data or use traffic flow counts on these roads, as it is unlikely there would be sufficient traffic counts to be representative.

General service pressures and the Spending Review penalise local authorities that have low initial spending levels. In principal we support the 3-year average traffic flows reflected by HM1 and also the up-dating of net in-commuter data to 2001 census levels as represented by HM2.

Question 20: Do you agree that back lanes should be included in the highway maintenance formula?

Response: No – We believe the topic of back lanes is not sufficiently significant or material to separately include within formulae. We believe that the definition of back lanes, as provided, requires significant clarification before use. The definition ought, at least, to include a requirement for them to have formal highway adoption and a formal public maintenance requirement.

Consideration ought to be given to indicators within the formula for public rights of way, bridle paths and cycle paths to take account of the spending on these, and to encourage their use as alternative means of transport to the car.

Chapter 11 Environmental, Protective and Cultural Services

Comments: In general the EPCS block has become out of step with the funding requirements and cost pressures that it seeks to represent. This is identified clearly in the current proposals that largely disregard the macro-economic and specific funding issues of waste management whilst, at the same time, looking to provide additional funding and distributional finesse for concessionary fares and watercourses. In addition, the more significant EPCS blocks are set judgementally by Ministers and funding therefore lacks statistical basis.

Question 21: Do you think we should adjust the coefficients for concessionary fares?

Response: No – Current arrangements provide for schemes at lower tier authority level. Therefore the County Council is largely unaffected by current changes.



However, East Sussex is a rural authority with a large elderly population. To achieve fairer transport availability from this additional funding, we believe that this additional funding (£350m) should be provided on the basis of specific grant until the incidence of additional cost is more geographically understood. At present there appear to be key cost pressures developing from these proposals in the more urban of our rural areas, such as Eastbourne etc. In the longer term, consideration might be given to this becoming an upper tier service, albeit administered at the lower tier level, in order to reduce the impact of cross-boundary service anomalies.

Question 22: Do you think we should make any further changes to coefficients; for example, it has been argued that we should do so to take into account the increasing expenditure on waste?

Response: Yes – We are disappointed that there is no question as to whether there should be a separate block for Waste, supported by a separate funding distribution model that takes account local service specific cost drivers. We believe that the Government's current Consultation question is either inappropriate or inadequate to respond to increasing public awareness of this issue and also neglects the Government's response elsewhere in the form of new targets and regulations. However we do support changes to coefficients that bring formulae into line with cost drivers albeit in a judgemental manner.

Question 23: Do you think we should update the fixed cost element?

Response: No - We believe that all local authorities should be of sufficient size to be economically viable in the provision of their services. If there is case for lower tier authorities, funding should be met from the EPCS lower tier control total and not top sliced more generally from other FSS control totals.

Question 24: Do you agree with the proposed method for transferring COWs to the Environment agency?

Response: Yes: Whilst the amount is not material, we support the principle of updating funding and formulae to match current responsibilities for services (in this case the Environment Agency).

Chapter 12 Capital Financing

Comments: Capital financing FSS has two deductions "interest on reserve receipts" and "other interest receipts", which derive from different founding principles. We acknowledge that the first is no longer relevant as the Government no longer prescribes the set aside of receipts to meet credit liabilities. The Consultation suggests that the "other interest receipts" element is a matter of unwarranted micro management by the formula grant system. We note that the 2005/06 FSS value for this element is (-) £451m, but recognise that adjustments ought to be required for the Dedicated Schools Grant proposals due to the capital element spent on schools.



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Question 25: Do you think we should remove the Interest Receipt elements?

Response: Conditionally Yes - We believe that these blocks should not be removed without a corresponding and relevant reduction to other appropriate FSS blocks. Without this, the change becomes another method of resource equalisation, based upon taxbase, rather than based on funding requirements. There is also a negative element to the “other interest receipts” element which relates to the Dedicated Schools Grant and capital spent on schools. Therefore the quantum for the level of (Schools) FSS transferred to Dedicated Schools Grant should be reduced accordingly.

Question 26: If we retain one or both of the Interest Receipt elements, do you have any views on how they should be distributed?

Response: Yes : In addition to the Schools quantum element mentioned above, we believe that, in view of the major incidence of these deductions toward Housing Authorities, any FSS redistribution should be appropriately geared particularly by deduction from the lower tier EPCS District authorities.

Question 27: If so, should we reduce other FSS totals to compensate, or not? And if we reduce other FSS elements, where should we make the reductions?

Response: Yes: As per our response to question 26 above, we believe that reductions should be seen in relevant FSS blocks with the minimum impact on distribution.

Chapter 13 Area Cost Adjustment

Comments: This is a major funding issue for East Sussex, which we do not feel is adequately addressed by current Consultation proposals. Much of what we wish to say is set out in our introductory letter to this Appendix. East Sussex is very much part of the high cost South East. Therefore in national terms East Sussex is a high cost area. This is plausibly supported by house price data, government recruitment cost of living data and comparative local authority pay data. The funding outcome for East Sussex (and elsewhere?) of the current ACA distribution of £2.8bn does not have any plausibility or validity case to map its “reasonability of outcome” to. This is particularly difficult for East Sussex in circumstances where we have independent research evidence to suggest that we are significantly under-funded in comparison to similar authorities. In addition without any plausible data comparisons, the ACA exercise remains theoretical without practical confirmation. It is therefore difficult to achieve an informed judgment upon the new ACA proposals of the Consultation paper.



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Question 28: Do you have any comments on our intention to use the full ASHE data set to calculate the ACA?

Response: Yes - In principal, we believe Government should use the Labour Force Survey for the ACA calculations. We believe that the Government should have exemplified the use of LFS for the ACA. Nonetheless NERA reports indicate an inherent bias in the ASHE/NES dataset, as its omissions make for a distorted representation of pay information throughout the country. In particular NES/ASHE does not sample workers who do not file a tax return. As these workers are not evenly spread throughout the country, this omission produces a bias. This bias overstates wage pressure in areas outside London and the South East, where the relatively higher proportion of non-taxpayers are not being included in the survey. Hence wage rates in these areas are inflated relative to the South East. Put simply, we believe that the NES/ASHE is too crude a basis on which to allocate large sums in grant. This reinforces our view that it is not at all unreasonable, given the importance of the LCA/ACA factors in the distribution of FSS (and therefore RSG), to request that straight-forward reassurance exercises be carried out to validate current ACA funding.

Question 29: Do you think that we should remove the very small rates cost adjustment, or do you think that we should update the weighting of the RCA in line with 2003/4 expenditure data?

Response: Yes - Without any plausible outcome validation for the Labour Cost Adjustment element, we do not believe that the Rates Cost Adjustment is sufficiently material to the Area Cost Adjustment issue to merit a separate adjustment.

Question 30: Do you agree with the Government's proposal to retain the current method of setting the lower limit for options ACA1-3?

Response: No - We believe there is no justification in setting a lower limit threshold to the ACA. Setting a threshold for a lower limit is a judgmental decision, introducing arbitrary cliff edges and anomalous outcomes. By having a lower limit, very small changes in the data at the margins may have a significant consequence, in terms of an authority having an ACA factor or not. The Elliott work in 1996 did not propose using a lower limit and we do not believe that a case has been made for its introduction since.

Question 31: Do you think that we should calculate a separate ACA factor for each upper tier authority?

Response: No - We believe there is not enough research on which to base a view on this issue. This area is not helped by the lack of transparency with the ACA. We find it odd that Government has initiated a debate on the geography of the ACA when it denies authorities and independent researchers the right of access to the underlying wage data and methodology in the ACA. When only Government has access to all the data necessary for informed views, it devalues and undermines consultation processes.



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London and the South-East appear to have more internal variability in pay across sub-areas than is true in the rest of the country and hence changes to the ACA geography are likely to have a more marked impact. This volatility may not be represented in the recruitment costs in a travel to work area. For this reason, given the limited amount of work Government have been willing to put into the ACA review this time, we would favour more research before any change is made.

Question 32: If we implement the change above, which option for setting the lower limit do you prefer?

Response: Neither - As stated above (question 30), we believe there is no justification for imposing any lower limit. The lower limit is an arbitrary way for Government to artificially down play the wage cost pressures faced in the South East economy and must be abolished.

Chapter 14 **Additional Resource Equalisation**

Comments: East Sussex County Council is a floor authority and, until our funding situation becomes more favourable, we will be unaffected by Resource Equalisation via the ANCT “resources” element of the grant calculation. However the practical effect of such a change is highly redistributive with grant funding moved away from the South East. East Sussex and South East authorities already suffer from low grant levels in comparison with authorities in other regions. Further Resource Equalisation will simply shift more of the burden for supporting local services on to local taxpayers, in a county and region that already has the highest average council tax per dwelling.

Question 33: Do you think we should increase resource equalisation?

Response: No - We are opposed to further resource equalisation. Resource Equalisation is fundamentally about the council tax and grant levels in each authority. In practice the methodology transfers grant from ‘low assessed need’/high tax base to ‘high assessed need’/low tax base authorities. Resource Equalisation was a key driver behind the large 2003/04 tax increases in the South East.

The Government is currently applying a rigid capping regime, which is inconsistent with a process causing direct council tax increases through grant loss under Resource Equalisation. The increasingly stringent council tax capping regime since 2004/05 means that the consequence of resource equalisation in 2006/07 will be felt by vulnerable service users in the South-East via reductions in services.

The method proposed for Resource Equalisation is arbitrary and inconsistent. There is no increase suggested, for example, in the Highways FSS block. This indicates the lack of research and discussion that has occurred over a very controversial adjustment. We suggest Government needs to carry out significant research and consultation to achieve a principled approach to resource equalisation.



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Question 34: Which of the options do you prefer?

Response: Neither - Further resource equalisation research and consultation should be carried out with local authority interest groups. This has not been the case so far. Scant regard appears to have been given to the “resource” side of funding during a time of major upheaval in the local government finance system.

Chapter 15 Floor Damping

Comments: We commend the current floor mechanism. Damping is a method of providing funding stability. However, if based on grant alone, it would not secure necessary investment in individual services that the Government may intend from specified increases Formula Spending Shares.

We believe that damping, in periods of funding turbulence, should be comprehensive and robust. This means that for the sake of the residents of East Sussex and our service users – we must retain the grant floor mechanism, but with some reasonableness in the calculation of grant increases relevant to all services.

Question 35: Do you consider that the capital adjustment should be abolished?

Response: We believe that new capital investment should be secured either by specific damping or by capital grant, otherwise Government approved investment, particularly for significant schemes, may not be possible without unreasonable increases in council tax.

Question 36: Which approach for paying for damping you prefer (i.e. the existing method, DMP2 or DMP3)?

Response: The existing method - As a floor authority, we are a beneficiary of floor damping rather than a payer. However we do consider that top slicing fortuitous gains from Settlements is the fairer model to smooth for authorities that are less fortunate with formula outcomes.

Chapter 16 Day Visitors

Comments: While the general updating of Settlement data is always to be welcomed, it is difficult to accept when the new data appears inexplicably different to previous methodology data and there is no rational explanation to understand changes. We understand that some of the current data is as much as 17 years out of date. At the same time, the variances in the new data suggest the potential for unexplained flaws, which would have significant funding consequences.



INVESTOR IN PEOPLE

Question 37: Would you prefer us to use the new day visitors' indicator?

Response: No – Unless variances in data can be validated to establish reliability, it should not be used until further research is undertaken. For instance, visitors to lower tier East Sussex are said to have increased overtime by 46% while visitor numbers to the County as a whole are considered to have fallen by 15%.

Additional Questions following publication

Education

Question 38: Do you agree that the January pupil count should be used instead of the September pupil count as the source for pupils aged 11 and over?

Response: Yes - There is a case for consistency in pupil count data between primary and secondary age groups. In addition, we believe the most reliable source of data should be used for grant distribution purposes. We believe it is preferable to introduce a small (9 month) time lag in data and to use the January pupil count. This will be consistent for both primary and secondary pupil groups and is also considered to be a more reliable count.

Environmental, Protective and Cultural Services

Question 39: Do you agree that an adjustment to the 2001 Census based country of birth indicator used in EPCS should be made?

Response: Yes – For consistency we support the inclusion of up-to-date and reliable data in the formula. As a result, we support the changes proposed here, to correct errors where residents of authorities have not been counted.

Social Services

Question 40: If you agree that there should be floors on the children's social services FSS, would you prefer a damping scheme based on a floor, ceiling and scaling factor or just on a floor and scaling factor?

Response: This depends on the level of turbulence a funding change will bring about. For damping to be effective it should be comprehensive and long term. As a result we believe that if there are wide variances in gain which do not match immediate new spending pressures, then ceilings would be appropriate to temper excessive funding gain and limit the effect of scaling factors.

Environmental, Protective and Cultural Services

Question 41: Do you agree that an adjustment to the 2001 Census based output area density indicator, used in both the EPCS and Police blocks, should be made?

Response: We support the inclusion of up-to-date and accurate data in the formulae.

