

Dear Sir/Madam

LOCAL GOVERNMENT FINANCE - FORMULA GRANT DISTRIBUTION A CONSULTATION PAPER 2005

RESPONSE BY SOUTH DERBYSHIRE DISTRICT COUNCIL

Thank you for the opportunity to respond to the above paper. Overall, the Council welcomes the Government's intentions to update and modernise the grant distribution system and the consequent move towards 3-year financial settlements.

Please find attached to this letter, an **appendix** setting out the Council's response to individual questions set out in the consultation paper. Responses apply to questions directly relevant to South Derbyshire.

Resource Equalisation

Generally, the Council supports many of the proposals contained in the consultation. The main concern centres around the option relating to resource equalisation (as set out in Chapter 14). Although it is recognised that there is some equity to this proposal, the exemplifications show that potentially, there would be a clear shift in resources, in particular away from many shire districts.

If this were the case, would the Government put in place some form of protection for those authorities that would see a potential reduction in resources, i.e. through the current "floor" mechanism?

However, it does seem that by abolishing the Interest Receipts Block alongside this option, would neutralise resource equalisation. Consequently, this is the option that the Council favours.

Following on from this point, the Council wishes to take the opportunity to raise an issue concerning the use of **population figures** that are likely to be reflected in the future grant setting mechanism.

A Fast Growing District

It is recognised that South Derbyshire is one of the fastest growing areas in the Midlands and for almost two decades, it has been the fastest growing district in Derbyshire. The ONS 2001 census figures show that between 1991 and 2001, the population grew by 12% compared with 3% for Derbyshire and the country as a whole.

Further development is planned to 2011 as set out in the Derbyshire Structure Plan. This effectively places a responsibility on the Council to provide a further 4,200 properties across the District by 2011 with a consequent increase in population.

Increasing Population

Based on average household size for the District (2.43 as per 2001 census) this will potentially increase the District's overall population by over 10,000 by 2011

(another 12% increase over 8 years). This is somewhat faster than previous years and it is anticipated that this rate of growth is most likely to continue well above the national average.

Proposed Changes to the Data Used

The Council welcomes the proposal to reduce the effect of "data lag," by moving from mid-year estimates to population projections. However, it seems that the projections will be based on the trend over the years 1999 to 2003.

Although this should be more beneficial to the Council, it will not pick up the planned acceleration in growth over the coming years. In addition, the starting point (i.e. the 2003 mid-year estimate) will not represent the most up-to-date information that has recently been produced by the ONS, i.e. the 2004 estimate.

The ONS projections for the District to 2011 show an average increase in population of around 1,100 per year. Based on the planned growth for the Council as explained above, this equates to an average of around 1,450 per year.

Potential Effect on FSS

Although this may not seem a great difference, it is more significant to the Council which receives a substantial part of its funding based on its resident population. The issue is exacerbated the longer the base trend analysis is not reviewed and will again move the Council's actual population away from that projected.

The Council considers that this will effectively reduce the Council's share of FSS and ultimately its calculated grant.

Points for Consideration

Therefore, the Council asks the Government to **consider rebasing projections on a yearly basis** so that more up-to-date population figures are used in future settlements. This would make the settlement more forward looking as proposed on page 37 of the consultation paper.

However, it is recognised that this may not in itself fully benefit the Council. Funding the effect of increasing populations may not find its way into actual formula grant. The Council (as a scaling authority) currently contributes to the cost of the floor through scaling and if this continues, the Council would lose some of its additional grant.

Therefore, the Council asks the Government to consider compensating higher growth through a specific or targeted grant. This would make the system more transparent, simple and recognise the additional costs of those areas, like South Derbyshire, with growing populations.

Finally, the Council is grateful for the opportunity to respond to the proposals and hope that the Government will give due consideration to the points raised, especially in regard to resource equalisation and population projections.

Yours, etc.

APPENDIX

Question 2 - Agree with the proposal to isolate police, fire and shire district authorities from the effects of Schools Transfer.

Question 3 - Broad agreement to using the alternative "four block" model.

Questions 21 to 24 - Agree with changes proposed to factors associated with waste expenditure and concessionary fares. The Council welcomes the proposal to update the fixed cost element.

Question 25 - Interest receipts element is outdated with the introduction of the prudential framework and penalises affected authorities unnecessarily. Agree with proposal to remove it.

Question 28 - Agree with the proposal to the use of the full ASHE data to calculate the Area Cost Adjustment (ACA).

Question 29 - Agree with the proposal to remove the very small rates cost adjustment.

Questions 31 and 32 - Agree with the proposal to calculate a separate ACA factor for each upper tier authority and the Council prefers the averaging option for setting the lower limit.

Questions 33 and 34 - Concern around resource equalisation - see main body of letter. If this proposal were implemented, the Council would prefer the Interest Receipts Block to be abolished.

Questions 35 and 36 - Agree with the proposal that the capital adjustment should be abolished from "floor" authorities and that the cost of the floor should not be split across groups of authorities. The Council prefers that the floor is met as evenly as possible across all authorities and favours the approach set out in the DMP2 model.

Question 37 - Agree with the proposal to use the new day visitors' indicator as this better reflects actual numbers coming into an authority's area.

