

COUNTY COUNCILS NETWORK

**RESPONSE TO THE LOCAL GOVERNMENT
PROVISIONAL SETTLEMENTS
2006/07 & 2007/08 AND
AMENDING REPORTS 2004/05 & 2005/06**

JANUARY 2006

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Introduction and Background

1. The County Councils Network (CCN) is a Special Interest Group (SIG) within the Local Government Association (LGA), with all 37 English Shire Counties in membership. The Network exists to promote the voice of our members within the LGA, and the values and interests of the English Counties. Together these authorities represent 48% of the population of England and provide services across 87% of its land area.
2. The CCN would like to thank the LGA and ODPM and the Department for Education and Skills for the help and technical support they have provided during the course of this consultation.
3. This consultation response comments on the Provisional Settlements for 2006/07 and 2007/08 as announced on 5 December 2005, and also the earlier Amending Reports 2004/05 and 2005/06 which are also subject to consultation.
4. The key areas of concern are outlined in the first part of this response. A more detailed technical analysis follows in the second part of the response. For convenience the technical analysis follows the same order as the chapter headings in the Formula Review consultation paper of Summer 2005.

Key Issues to the Provisional Settlement

5. The CCN spent considerable time and effort examining in detail the various options and issues put forward in the summer's Formula Review Consultation. We have spent the last few weeks comparing those options with those implemented in the 2006/07 and 2007/08 Provisional Settlements. There are marked differences in the eventual outcome and the proposals that were consulted upon.
6. On the whole, the CCN welcomes many of the proposals from the Consultation Paper having been implemented in the 2006/07 and 2007/08 Provisional Settlements, although there are areas of major concern.
7. CCN welcomes the stability and predictability provided by the introduction of three-year settlements. Also given that counties have been lobbying for some considerable time for the replacement of 1991 Census data with data from the 2001 Census, the CCN welcomes the replacement of this long out-of-date data in these Provisional Settlements.
8. There are a number of key issues however, that the CCN believes must be addressed when considering the Provisional Settlements, and these are summarised below.

Schools Transfer and Dedicated Schools Grant (DSG)

9. The CCN opposes the schools transfer and introduction of the Dedicated Schools Grant on the grounds that these proposals remove local autonomy and accountability for schools funding.
10. It is apparent that by removing Formula Grant to fund DSG the Government has created a very significant change in the balance of funding for local government and brought into sharp focus the extent of government support for services outside schools. For counties the proportion of net spend outside schools supported by formula grant is now close to 30%.
11. This change has also forced the merger of NNDR and RSG which makes the relocalisation of business rates much more difficult and may restrict the options available to Sir Michael Lyons when reviewing the future options for the funding of local government.

12. The transfer should have been carried out at Schools FSS rather than Schools spend, as the method the Government has used has benefited those authorities which have chosen to spend less than the FSS on schools.
13. We disagree that non-education authorities are to be protected from the effects of this transfer. It is inconsistent to protect, say, the Police Service or Combined Fire Authorities, and yet require Social Services or Fire and Rescue Services that are provided by county councils to be unprotected.
14. We are also very concerned that the Government's attention will be focused on schools, and that the funding of DSG will be at the expense of adequate funding for the rest of local government. This is evidenced in the 2006/07 Provisional Settlement, with an overall increase of 6% in DSG (6.8% per pupil), but only an average of 3.1% for local authorities, with many only receiving 2%. The situation is similar for 2007/08.
15. The CCN have made a separate response to the DfES on their consultation, which ended on 4 January 2006.

Funding Quantum Outside Schools

16. Whilst recognising that the government has found some additional resources, which of course we welcome, the actual cash grant increase for counties for 2006/07 is just £92million (for non-schools services, after taking into account the effects of the Amending Reports). This represents an increase of 2.46% in formula grant, or is equivalent to just 0.9% on net spend outside of schools (using 2005/06 estimates). This is the lowest for any class of authority.
17. The headline percentage increase in formula grant does not take account of the loss of some key specific grants (e.g. Safeguarding Children) nor the now uncertain revenue support for so called 'supported borrowing'. The result is that the effective increase in formula grant is considerably less than the quoted headlines.
18. This level of increase does not begin to address the real cost pressures facing county councils, particularly in areas such as adult social care and waste management. We recognise this is two of several areas the Government wish to review further and we welcome this. The effective rate of inflation faced by local authorities is considerably higher than any RPI-based measure, and we wish to encourage further work in developing a local authority price index. Again this seems to have been recognised by the Government.

19. We have surveyed county councils, and estimated the cost pressures for non-schools budgets to be £1.2 billion for 2006/07 (before further efficiency savings). The comparison between the £92 million of additional grant and £1.2 billion of pressures is stark.
20. We wish to highlight the success of county councils in delivering efficiency savings with an expected achievement of £600 million for 2004/05 and 2005/06 compared to the Government's target of £320 million.

Floor Damping and Sustainability

21. Eighteen county councils are on the 2% floor in 2006/07 for grant floor damping and in many cases the scale of damping, on the raw grant result from the underlying formula, is massive. The remaining nineteen have 87% of their increase taken away to pay for the floor, at a total cost of £104 million. This situation is not much improved in 2007/08.
22. The CCN have very significant concerns about the underlying formula changes, not least in relation to Resource Equalisation. Nevertheless, we call upon the Government to provide additional resources to pay for the floor.
23. The scale of damping for non-floor authorities is so extreme as to largely negate the gains from formula changes. This illustrates our concern about the robustness of the underlying formula changes and the sustainability of the new formula beyond 2007/08.
24. We consider that the poor overall financial settlement in terms of grant to address the spending pressures faced by local authorities, coupled with the largely judgmental changes to the grant distribution system, have produced settlements which can only be described as unsustainable beyond the two year period the announcement covers. The increases in grant received by authorities now appear to be effectively unrelated to the Relative Needs Formula.
25. Sir Michael Lyons is due to make his final report in December 2006. This may result in fundamental changes to the way local government is funded, indeed as we have already highlighted that we feel the changes required to merge RSG and NNDR to provide for the DSG, may have already pre-empted this. In this context we seriously question the need to make such radical changes to the grant distribution at this time, and the sustainability of the new system being implemented.

Supported Borrowing

26. The Government has abolished the Capital Adjustment for 2006/07. The large number of authorities now on the grant floor, combined with the punitive scaling factor for authorities above the floor, means that there is now little or no incentive for authorities to invest in new capital projects which are to be supported by Formula Grant (SCE (R)). This appears to be a very unfortunate consequence of the Settlement. It also comes at a time when issues on infrastructure investment have a high profile, such as the Building Schools for the Future programme and Local Transport Plans, where there is a high expectancy on local authorities to deliver significant new investment.

Resource Equalisation

27. In terms of the underlying formula changes, the Additional Resource Equalisation option implemented in this provisional settlement shifts significant resources, albeit before floors and damping, away from Counties to London and Metropolitan authorities. This further equalisation exacerbates the significant movement of resources that occurred as a result of the last formula review in 2002.

28. The introduction of the Four Block Model has obscured the degree to which further Resource Equalisation has been implemented. We understand that there are now several ways of calculating and presenting the effect on grant of implementing this further equalisation. Our own estimates indicate that up to £190million of grant may have been shifted away from counties as a result of this further equalisation. This is in addition to the £311million which was moved away from counties at the last formula review.

29. There are some fundamental problems with the approach used in this settlement. The proposals are based on equalising on selected items of past spend, which takes no account of the quality or efficiency of services provided, nor of local decisions to provide services above a standard level. There are currently no established principles on what should be equalised on or for.

30. If the Government considers that FSS (now RNF) should be uplifted to take account of spending, then in order to be consistent, this additional spending should also be recognised by Government putting in its share of grant as additional resources.

31. These proposals move grant, albeit before floors and ceilings, away from Counties spending in excess of FSS to authorities spending below FSS.

32. The CCN reiterate the need for detailed, independent research to establish the need, level and mechanism before any further Resource Equalisation.
33. The recent extension of the remit of the Lyons Inquiry provides the proper opportunity for the principles and methodology of Resource Equalisation to be researched and considered. It is the opinion of the CCN that further Resource Equalisation should not be rushed into without considering the wider areas of Council Tax Revaluation, Balance of Funding, the efficiency delivery and role of local government, which Sir Michael will be investigating in detail.

Alternative Grant Systems – the Four Block Model

34. Despite overwhelming opposition from local government, Ministers have decided to replace the current FSS system with the Four Block Model. Despite the Minister's comments in the House on 5th December, we still hold the view that the new system is of much greater complexity and less transparency than the current system.
35. The Minister spoke of an "honest currency"; and yet we find this idea difficult to reconcile with a system that contains a greater degree of ministerial judgment than before, and appears designed to obscure various assumptions rather than make the system easier to understand and be able to be explained to taxpayers.

Waste Management

36. We are disappointed that the Government has decided to reject the findings of recent research by PricewaterhouseCoopers. This research showed that waste management costs are driven solely by population headcount (adjusted for area costs), and not by factors such as population density or deprivation. This research recommended that a new Waste Management FSS (or RNF) block should be established.
37. The Government has decided to retain Waste within the EPCS block. Further, Ministers have decided not to re-weight the indicators within the EPCS block to take account of the increasing expenditure on waste. This is also very disappointing, especially as the indicators have been re-weighted to account for Concessionary Fares, the quantum for which is significantly smaller than for Waste.

Other formula changes

38. A further area where Ministers have arbitrarily made judgemental decisions is the Social Services formulae. Whilst welcoming the updating of the Social Services RNF sub-blocks from models that depended heavily on data from the 1991 Census, we are very disappointed that Ministers have taken the judgmental decision to implement RNF (formula) damping on the Children's Social Services sub block and the Younger Adults sub-block, and not to the Older Adults sub-block. The application of this damping is inconsistent and adds further complication to the formulae.
39. In our response to the formula review consultation over the summer, we argued that damping should be treated consistently throughout the system. This damping builds in a further level of complexity, and we do not consider it necessary as protection is of course provided by grant floor damping to authorities that lose out from updating the formula.

Special and Specific Grants

40. The increase in formula grant for authorities must also be considered in the light of changes to specific and special grants. We wish in particular to highlight the ending of the Safeguarding Children grant and reductions in the Supporting People grant.
41. The Safeguarding Children grant was worth £27million to counties in 2005/06. It was not widely known that the Government was ceasing this grant from 1 April 2006.
42. The allocations for Supporting People grant show a cash cut of 1.8% for counties (compared to 1.7% nationally), or £11million. This is effectively a reduction of about 5% in real terms, requiring counties to make further reductions in service provision in 2006/07.
43. The Government has suggested that authorities look at the overall settlement in the round. Combining the effect of the small increase in formula grant with these reductions in specific grants means that some counties are facing, effectively, little cash increase in 2006/07 for non-schools services. This has serious consequences for local service delivery and puts severe pressure on council tax levels.

Capping and Alternative Notional Amounts (ANA)

44. The ODPM has stated that ANAs will be used to enable a like-for-like comparison of the 2006/07 Budget Requirements with that for 2005/06 for capping purposes. The ANAs include an adjustment for the schools transfer, but do not adjust for other significant changes such as the transfer of specific grant into Formula Grant for PSS Preserved Rights and Residential Allowances.
45. Whilst not of the scale of the schools transfer, these PSS changes have a material effect on many authorities, and other adjustments have been made of a similar scale, such as for Police and Fire Pensions.
46. It could also be argued that these adjustments should be made as a matter of principle rather than materiality.

Provisional Settlement Consultation Process

47. The CCN is concerned that the ODPM has been slow at providing supporting data for the Settlements. For example, the Local Government Finance Report 2007/08 had not appeared before the Christmas break, and a number of tables for both 2006/07 and 2007/08 had not been made available. There have also been a number of errors in the supporting material, which have had to be corrected as the consultation progressed.
48. The lack of predictability about the outcome of the formula changes is causing difficulties for counties and council leaders in negotiations with their local partners. This lack of predictability reduces the credibility of councils from the viewpoint of other local organisations.
49. We are disappointed that the Government continues to push through radical changes without providing adequate time to respond or adequate supporting material to enable changes to be adequately analysed. In particular, we are very concerned about the lack of connectivity in the last 12 months between the Settlement Working Group (SWG) and the Provisional Settlement. Complex technical papers were often made available for these meetings at very short notice, not giving the local government representatives sufficient time to comprehend the impact of proposals.

50. We understood that the SWG meetings are intended for central and local government to work together to evolve options for the forthcoming financial settlement, whilst accepting the right of Government to take their own political view. We query the usefulness of the process where, for instance, the local government representatives on the SWG all stated that the Four Block Model which was ultimately used for the settlement was too complex as it would not be widely understood nor would it assist in explaining grant distribution. Regardless of these comments, the Government has adopted the new model.

If you have any queries on the issues contained within this paper please contact Time Richens, Assistant Director (Finance), County Councils Network, Tel. 020 7664 3002 or email Tim.Richens@lga.gov.uk

Chapter One: Timescales & Accuracy

51. In the CCN response to the Formula Review Consultation we voiced our concerns regarding the highly ambitious schedule for Settlement Working Groups (SWGs). It is our opinion that work should have begun much earlier and SWGs in turn, should have commenced earlier in the year. During the summer research reports were consistently tabled late, resulting in agendas that were too full to be completed during a single meeting.
52. The CCN was also concerned with the lack of technical information available to special interest groups both during the main Formula Review consultation and at the time of the provisional settlement announcement and with the errors contained in the published exemplifications.
53. The provisional settlement was announced on 5th December 2005. Local authorities had still not been provided with the 2007/08 Local Government Finance Report and Analyses of Change tables before the Christmas break. The Key Player packs (provided to SIGs) arrived with just three-and-a-half weeks remaining of the six-week consultation period.
54. At the final Settlement Working Group before the provisional settlement announcement representatives from Local Government requested that they be informed in advance if the alternative "four-block" model was going to be used. Despite its subsequent introduction we received no prior warning before the day of the settlement.
55. The CCN are having difficulty understanding the delay in receiving the local authority data (also known as The Key Player Pack) especially since the data would have been required had Government chosen the new four-block model or not.

Chapter Two: Schools Transfer

56. The Government has decided that funding for schools should be distributed centrally rather than at a local level as in the current system. In order to achieve this, the government has decided to abandon the principle of reducing Specific Grants and has created the largest ever Specific Grant, which is actually larger than the remainder of Formula Grant.
57. In our responses to the DfES the CCN opposed these changes. It is the view of the CCN that the proposals remove local autonomy and accountability.
58. The CCN remain of the opinion that the transfer should have occurred at Schools FSS (SFSS) and not Schools Budget as this simply rewards or penalises authorities for past spending decisions. The Minimum Funding Guarantee (MFG) has locked in local decisions to spend above SFSS and those authorities are now unable to divert that additional funding toward other services.
59. In our response to the Formula Review Consultation CCN requested that the Government communicate the transfer of schools funding carefully. With authorities showing a reduction in budget requirements it may be difficult to explain to council taxpayers why their bill has not also fallen. The CCN reiterate this request.
60. The Government asked local authorities for their opinion on the use of customised damping to protect the non-schools services from the effects of the transfer. Counties spend considerably above SFSS on their schools and feel that the Government should have protected authorities for which the schools budget was a large proportion of their formula grant allocation. Instead there is no additional damping in the provisional settlement.
61. When the Government asked whether we thought that non-education authorities should be protected from the effects of the schools transfer CCN was against the idea. Our concern was that lower tier services would be protected in two-tier areas, but not in unitary areas. Fire and Rescue Services could be isolated when delivered by CFAs but not when delivered by County Councils.
62. The provisional settlement shows that the Government have chosen to press ahead with plans to protect non-education services from the Schools transfer, but have not addressed the concerns raised.

Chapter Three: Alternative Grant Systems

63. In his speech to the House of Commons on 5th December Phil Woolas acknowledged the opposition from Local Government to the proposed alternative grant distribution methodology. He went on to state that the arguments against its introduction were not strong, adding that the new method is not any more complex nor does it employ any more judgement than the previous methodology.
64. The CCN disagree with this summary. The alternative (four-block) model is far more complex than the existing FSS methodology, and uses much greater ministerial judgement, resulting in a less transparent methodology. Whilst CCN supports the principles of the ODPM's work to find a new simpler methodology for grant distribution, we do not feel that this adequately meets any of the criteria laid out.
65. In the response to the Formula Review Consultation CCN raised concerns about the turbulence facing local government at such a time. As such, we feel it is unacceptable to present a two-year provisional settlement that is calculated via a model that was not even consulted on during the summer and is therefore not comparable to the previously studied and exemplified models.
66. The new Four-block model is calculated in such a way that services are no longer self-contained within similar authorities. For example, removing the damping elements from both the Children's and Younger Adults Social Services Block and not altering any part of the 4-block model apart from the floor and scaling pushes money away from education/PSS authorities. So, rather than the removal of the damping benefiting those PSS authorities who faced damping, it actually benefits Police Authorities.
67. Whilst it is possible that the Government would be able to alter the figures by changing the sizes of the cash blocks, these are figures that are set judgementally and would seriously reduce the transparency of this new system.
68. The CCN are against the introduction of this new grant distribution model on the grounds that it lacks transparency and is too complicated.

Chapter Four: Multi-Year Settlements

69. At the time of the 2004 Spending Review the Chancellor announced the introduction of three-year settlements for Local Government.
70. In principle, CCN welcomes the stability offered by the introduction of these multi-year settlements, however, raised concerns about the number of other changes occurring at the same time.
71. Concerns also exist around the accuracy and methodology employed when calculating the data projections for these settlements. Following the delay of the 2006 Spending Review, CCN are also concerned about the absence of any reassurances from HM Treasury as to the pattern/frequency of the future spending reviews. With the three-year settlements intended to coincide with these reviews, we feel this issue needs to be addressed.
72. The CCN still request clarification on the issue of setting indicative Council Tax bills for the period of settlements. Phil Woolas' speech to the House of Commons on 5th December stated that "there is no reason why councils cannot now provide similar certainty for their council taxpayers when setting their council tax for 2006/07 by providing indicative council tax for 2007/08". However, there seems to be confusion amongst local government about just how firm these provisional settlements are, especially that for 2007/08.

Chapter Five: Amending Reports

73. The CCN still believe that the Government should put in additional resources to resolve these errors and not claw-back the grant from individual authorities. We welcomed the decision by the DfES earlier in 2005 to award specific grant to the eight authorities that lost out due to errors in the SCE(R).
74. Retrospective changes to the level of grant support are in opposition to the aims of multi-year settlements. In Chapter Four the CCN reiterate their concerns over the accuracy of the projected data. The use of accurate data now mitigates the need to issue amending reports in the future.
75. We also note that, in the 2004/05 amending report the shares of ANCT also change between authority groups. We ask again that the government provide clear and transparent methodology for calculating SANCT.
76. Whilst the CCN remain opposed to the method of clawing back grant from local authorities, they do welcome the protection afforded in the floor damping calculations.

Chapter Six: Children's Services

77. The CCN welcome the use of the 2001 Census data, replacing the 1991 data. The CCN has long campaigned for the use of the most up-to-date and accurate data; hence we also support the use of the more accurate January Pupil count.
78. In the Formula Review Consultation the Government also consulted on the removal of the Residual College Lecturers Pension element of the LEA block. This was an option that the CCN did not support, due to the fact that there are still a number of Local Education Authorities who hold responsibility for this. Hence, we are disappointed to see that Government have gone ahead with their plans.
79. The LEA Damping Sub-Block has also been removed. The CCN argued for the Government to be consistent in their damping in the formula, and that damping should be applied at the final point in the Formula Grant calculations. The CCN support this move, however are not in favour of the introduction of damping-within-blocks on two other occasions.
80. The CCN were in support of the option SSC1 to update the main element of the children's Social services block. Since the consultation the formula has been revised and the Density element removed following an error being found in some data. The CCN continue to support this latter change, as it produces a more accurate formula.
81. Within the Children's PSS calculations there is an element designed to compensate authorities for the costs associated with fostering. As above, the CCN support the updating of this formula to include 2001 census data. In our response to the Formula Review Consultation we stated that whilst both Adjustments used such similar variables we would support the best model statistically. This was option SSC2, which, we are pleased to see, has been implemented.
82. The CCN were not in favour of increasing the weighting given to the foster cost adjustment as we felt that it flew in the face of the ODPM's own request that FSS are not used as a comparator for spend. We note that the weighting in this case has been increased.
83. The government also consulted on the introduction of damping in this sub-block. The CCN would like to state again its position of opposing within block damping. We would like the Government to be consistent with the within block damping and only apply floors and scaling factors at the final grant calculation stage.

Chapter Seven: Adults Personal Social Services

84. This is a new block in 2006/07 and consists of the Younger Adults and Elderly Social Services formulae.
85. During the consultation one of the options for the Elderly Social Services Main Formula was dropped. CCN supported the remaining option, which allowed 2001 census data to be included in the calculations, and are pleased to see it has been implemented. We also welcome the new Low Income Adjustment, which also incorporates more recent census data.
86. The CCN put forward the suggestion that the existing sparsity measure simply be updated using 2001 census data, as employed in the LEA sub-blocks. However the ODPM have decided to use one of the other options consulted on: the sparsity of elderly people.
87. We await a response to the question: why the sparsity of young people is not used within the LEA blocks? The Government state that they would like a simple formula, yet CCN feel that including different methods for measuring and calculating sparsity only adds to the complexity of the formula.
88. Following the research by the Countryside Agency presented to the SWG (paper SWG/05/16) showing considerably higher costs in rural areas, CCN fully supported a move to increase the sparsity weighting above the 0.4%. However, we are disappointed to see that this research has been ignored and the sparsity weighting remains at 0.43%. The paper indicated that costs could be up to 45% higher in rural areas than in urban areas. Whilst we felt that 1% was still too low to compensate for higher costs the CCN suggested that it would be adequate for the short term, until further research could be undertaken.
89. The Government presented two options in the Formula Review Consultation to update the Younger Adult's Social Services block. The ODPM stated that one was a technically better model (also the one supported by the CCN), however, the Government have chosen to implement the other, remaining, option.
90. As with the Children's Social Services the results of the Younger Adult's formula have also been damped. The CCN would like to refer the Government to the comments associated with the Children's Social Services block, in that it does not make Local Government confident in the results produced by the ODPM's research, if they themselves introduce damping to lessen the effects of the formula.

91. Again, CCN request that the Government be consistent with the use of damping, and that floors and scaling factors only be applied in the final stages of the grant calculations.

Chapter Eight: Police

92. The proposals presented in the Formula Review Consultation Paper were based on work undertaken by the Police Allocation Formula Working Group (PAFWG) and were intended to bring the formula in line with the Police Performance Assessment Framework (PPAF).
93. Whilst not directly affected by the proposals for the police formula, the CCN would support the response made by the Police Authority Treasurers Society (PATS) on this element of the formula.

Chapter Nine: Fire and Rescue

94. The CCN would like to thank the Government for incorporating the 2001 census data, an issue that we have long campaigned on. Because the CCN support the inclusion of up-to-date and accurate data we are also pleased to see that the old 'A' Risk area measure has been replaced by the COMAH sites and that the outdated ACORN types have also been updated.
95. The CCN were opposed to the weight given to the fixed element for Community Fire Safety being increased. We felt that this would be entirely judgemental, as we had seen no evidence to support such a change. We are disappointed to see that the weight for this indicator has been doubled and request sight of the evidence to support this change.
96. The Government also consulted on the measures used within the Fire Safety Enforcement Indicator, as the data currently used was no longer going to be available. The CCN are pleased to see that the Government have chosen to introduce a new Property and Societal Risk Indicator.
97. Of the two options presented as a Risk Index Indicator, the CCN supported the FIR7 option as we had concerns over the length of the averages being used. We are pleased to see that the Government has implemented the ACORN option rather than the five-year averages from the Survey of English Housing (SEH).
98. During the Fire Formula Working Groups (FFWGs) a number of authorities presented work showing the relationship between retained fire fighters and rural areas. The CCN supported the inclusion of a fixed element for sparsity in recognition of the additional costs associated with employing retained fire fighters. We also expressed an interest on working with the government in the future to find a less judgemental weighting for the sparsity measure. Hence, we are sorely disappointed to see that no fixed element for sparsity included in the Fire and Rescue formula.

Chapter Ten: Highway Maintenance

99. The changes consulted on in this FSS block were not fundamental. The CCN support the use of three-year average frozen traffic flow data to reduce the volatility found in the annual figures. We also welcome the decision to replace the 1991 census data with 2001 census data in the number of net in-commuters.

100. Another option consulted on was the possible inclusion of back lanes in the formula. The CCN opposed this potential alteration for a variety of reasons; we felt that the complexity of the formula would be increased for very little value, there was also no formally agreed definition of a back lane.

101. CCN requested that the government also consider looking at the inclusion of bridle paths, public rights of way and cycle paths into the formula. These suggestions have not been adopted, nor has the suggestion to include back lanes.

Chapter Eleven: Environmental, Protective and Cultural Services

102. The CCN have been campaigning for the 1991 census data to be updated with the more recent 2001 census data and we welcome the decision to do so this year with respect to the Density, Sparsity, Net In-commuters and Country of Birth data.
103. The Government consulted on the re-weighting of the indicators to distribute the £350m made available to fund the free local off peak bus travel for the over 60 and disabled. This adjustment has been implemented in the lower tier EPCS formula, hence there are only three members of CCN who will receive any additional funding.
104. Whilst CCN support the adjustment of formulas to reflect changes to responsibilities, we feel that the use of judgement to set the coefficients is neither robust nor transparent.
105. The Government has chosen not to make any adjustments to the weightings to reflect the waste disposal and collection cost burdens faced by authorities. During the summer 2005 the Society of County Treasurers presented a paper to SWG detailing research undertaken by PwC into a suitable distribution formula to reflect the pressures of waste costs. The conclusion was simple: that waste costs are strongly correlated to population.
106. With such a potentially simple alteration needed CCN are disappointed that no effort has been made to reflect these rising costs.
107. The Government has also chosen to increase the fixed costs for local authorities from £300,000 to £325,000. This increase is funded through a decrease in the upper and lower tier EPCS control totals. Whilst the CCN recognise that there are fixed costs of being "in business", it feels that all authorities are of sufficient size and receive appropriate funding to cover these costs.
108. It is the feeling of the CCN that if an element for fixed costs were to remain in the formula that it should be restricted to District Councils only and the amount should be taken from the lower tier control total, not the overall control total. Hence, the CCN remain opposed to the increase in fixed costs element.
109. The CCN support the transfer of the Critical Ordinary Watercourse (COWs) to the environment agency, as it is an alteration to reflect a change in the responsibility for services.

Chapter Twelve: Capital Financing

110. In our response to the Government's Formula Review Consultation the CCN were opposed to the removal of the Interest Receipts blocks. The paper hinted at the Government's favoured option being the removal of the two negative blocks with no reductions being made to any other FSS blocks.
111. The CCN's response requested that the sub-blocks be retained until research has been carried out to examine the factors that contribute to an authority's ability to generate interest receipts. If this was not to be the case, CCN requested that all the FSS control total be reduced by the amount of the two discarded blocks.
112. Removing negative blocks will increase the overall FSS control total. With no corresponding increase in RSG or NNDR this increase would be funded through an increase in ANCT. Therefore, this is option is effectively a form of Resource Equalisation, and also the option that has been implemented for the 2006/07 Provisional Settlement. The CCN are disappointed at the Government's insistence of the implementation of this option with no further research being commissioned, nor reduction in control totals.

Chapter Thirteen: Area Cost Adjustment

113. The Area Cost Adjustment (ACA) is intended to reflect the varying wage pressures throughout the country. The existing ACA contains two components, the Labour Cost Adjustment (LCA) and the Rates Cost Adjustment (RCA). The LCA is by far the larger of the two components and is based on data that reflects the local labour market, and therefore the wage pressures faced by a local authority. The RCA is a measure of the variation in business rates across the country.
114. The existing method was introduced in 2003/04 and extended the ACA to authorities outside London and the South East, based on wage data. It is because these last changes were so recent that updating the ACA this year is not a priority for the government.
115. The CCN agrees that the higher costs faced by Local Government in different locations should be recognised. However, the CCN chooses not to comment on the Area Cost Adjustment due to the distributional effects between our 37 member authorities who span all regions of the country.
116. Please refer to our members' individual responses on this subject.

Chapter Fourteen: Resource Equalisation

117. The CCN strongly opposed the carrying out of Resource Equalisation at this time. Although in principle we support the idea, we feel that equalisation should not be carried out using ministerial judgment. Instead, that a formula change which produces such large distributional changes should be based on research.
118. CCN listed a number of reasons that they opposed the proposed method of equalisation. Firstly, for the ODPM to discourage the comparison between FSS and spend, and then increase [certain] FSS inline with spend sends a conflicting method to Local Government.
119. Secondly, with the development of a new distribution method which is not reliant on notional levels of spend and taxation being worked on, it seems futile to alter the existing methodology to reflect current levels of spend and taxation.
120. Thirdly, the proposed method of resource equalisation takes no account of an authority's "need" to spend, with no measure of their efficiency of spending.
121. CCN believe that the Council Tax Revaluation exercise and the extended Lyon's enquiry are the proper vehicles for research into resource equalisation. CCN are keen to work with the Lyons inquiry and feel that the ODPM should not attempt to pre-empt their findings by performing Resource Equalisation based on judgement.
122. Hence, the CCN are again disappointed with the Government's decision to press ahead with the proposed options this year, rather than wait for impartial research to be carried out.

Chapter Fifteen: Floor Damping

123. CCN were opposed to the Government's suggestion to remove the Capital Adjustment from the damping calculations. For many floor authorities this adjustment is relied upon to fund large capital schemes. Combined with the large potential turbulence many more authorities could have found themselves on the floor and relying on the Capital Adjustment.

124. Sadly, the Government have abolished this adjustment for simplicity reasons.

125. The consultation paper offered three possible methods of floor damping: Taxbase damping, damping on the basic amount and the current method of damping. CCN supported the continued use of the existing methodology and are pleased that the Government have not introduced either of the other two options.

Chapter Sixteen: Day Visitors

126. CCN support the continued use of the existing Day Visitor data, despite some of the data being almost 20 years out of date as the updated figures produced questionable results.
127. The CCN still support the use of up-to-date data in the funding formulae and whilst we agree that these figures are not suitable we support the continued research in this area for inclusion at the next formula review.