



# worcestershire county council

15 April 2005

Our ref: SM/CO  
Ask for: Sonia Matthews/Caroline Oliver

Dear Sir Michael Lyons

## Balance of Funding Review

The Council has resolved that political groups will comment individually on council tax and alternative forms of income. However, views on some of the more technical issues in respect of the current funding formula and other aspects of local government finance are given below.

### 1. Narrowing funding gap

The Council supports the provision of a basic entitlement in the FSS formula but it is the size of the top-ups that create the unfairness and the significant differences between the best and worst funded authorities. It is accepted that differences in funding levels are necessary, but any top-ups should be kept to a minimum e.g. Area Cost Adjustment (ACA) and Additional Educational Needs. The basic entitlement needs to be as large as possible in order to fund a consistent level of service and provide opportunities for service improvements across the country. This means it should be the starting point for the provision of funding and not the residual sum after the assessment of top-ups. This issue is particularly significant for education funding where even between counties the formula provides a difference of £410 per pupil between the highest and lowest funded authorities.

### 2. Area Cost Adjustment (ACA)

The Council believes the geography to which the ACA is applied and the treatment of cliff edges should be re-examined with consideration given to travel-to-work areas. In addition alternative data sources should be examined eg The Labour Force Survey (LFS). Evidence and support for change to the current system has been provided by research carried out by Professors Blanchflower and Oswald. Copies of their reports are enclosed. Alternatively consideration should be given to reducing the amount distributed and geographic areas covered, to compensate only those areas with significant identifiable cost differences.

### 3. Most up-to-date data to be used

**Mike Weaver**  
**MSc CPFA**  
Director of Financial  
Services

PO Box 374  
County Hall  
Spetchley Road  
WORCESTER  
WR5 2XF



INVESTOR IN PEOPLE

---

Tel 01905 766500 • Fax 01905 766578 • Minicom (01905) 766399 • DX 29941 Worcester 2  
mweaver@worcestershire.gov.uk • www.worcestershire.gov.uk

The 2005/06 settlement still uses data from the 1991 Census, despite the 2001 census data being available. The decision to continue to use fourteen year old data when new data is available is most unsatisfactory and does not reflect the Council's view or government stated policy on Revenue Support Grant (RSG) to use the most up-to-date data. Funding should reflect the changing need to spend.

#### 4. Amending Reports

The Council disagrees with the use of retrospective legislation to clawback Revenue Support that has been already used in good faith consistent with government priorities. This destabilises financial planning. The Government should make additional funding available to correct any major system errors rather than clawback from other authorities.

#### 5. Transparent calculation of Assumed National Council Tax (ANCT)

It is disappointing that judgement has been exercised to determine the class share of the Assumed National Council Tax used in the grant formula. This element of the formula has a significant effect on the relative tax burden between classes of authority and distorts the effects of spending needs recognised by data changes in the formula.

#### 6. Resource equalisation

The Council supports the need for equalisation of resources in order to promote the fairness of the local government tax system. However the Council cannot support the large shift in resources which was caused in 2003/04 when the assumed spending totals used in the local government finance system were brought into line with actual local authority spending without an increase in government support. (The event which has become known as 'resource equalisation').

If actual expenditure is to be used as a basis to distribute resources then it should also be supported by central government and resources allocated accordingly.

#### 7. Capping

There should be no reserve powers to limit local government expenditure as they blur local accountability.

#### 8. Proportion of Central Funding

---

The current proportion of local government finance funded centrally has resulted in too great a reliance on this funding and its distribution. Changes in levels of spending and central funding then have a disproportionate effect on the Council Tax (gearing).

9. Reforming Council Tax Benefit

Any change to the benefit system, which encourages those eligible to take up those benefits, is welcomed. The Local Government Association (LGA) proposal for a 'maximum liability' system is welcomed in order to promote better take up of available benefits and to ensure benefits are available to all sectors of the community.

Yours sincerely



**Mike Weaver**  
**Director of Financial Services**