

BRIEFING PAPER ON ABERDEENSHIRE COUNCIL'S GRANT POSITION

INTRODUCTION

This paper presents Aberdeenshire Council's case for a fair share of government grant. Aberdeenshire's FairShare campaign has been pushing since 2003 to try to increase the level of Government financial support to the North-East, and in particular, to Aberdeenshire Council. The FairShare Campaign has raised awareness and even acceptance of the unfairness at local and national level. Aberdeenshire still lags behind other councils, with a shortfall of over 13.6% between Aberdeenshire's grant and the Scottish average. Since the inception of the FairShare campaign, the gap has decreased slightly, although there is still some way to go.

Aberdeenshire Council is not seeking to do better than other areas, some of which admittedly have more problems in terms of deprivation and need – we are simply seeking to get a fairer share of the public funds available nationally, and even then this demand will be seen to be pitched at the lower end of what could be considered a "fair share".

Instead, Aberdeenshire's efforts have been concentrated on promoting three specific issues, in conjunction with Aberdeen City and the other public bodies in the North-East.

- Opening and continuing the grant distribution debate at CoSLA and Scottish Government level
- promoting the idea of a "floor" in the AEF per head of population
- simplifying the GAE grant distribution mechanism

This is a fairly full paper and is technical in its content in some parts. It is aimed at councillors, employees, other public sector bodies, MPs, MSPs, MEPs, Ministers and civil servants, and others who have some basic knowledge of how local government works. A leaflet summarising this paper is available on the Council's website. (www.aberdeenshire.gov.uk)

BACKGROUND

Earlier briefing papers have set the scene on several occasions to diverse audiences. The facts remain unchanged. Updated for the 2010/11 financial year, these may be summarised as follows:

- Aberdeenshire Council's spending is 11.2% below the Scottish average.

- Our staffing levels are 6.5% below the Scottish average.
- Government grant per head of population is 13.6% below the Scottish average for 2010/11 based on June 2008 population figures.
- £63m had to be cut from revenue budgets between 1996 and 2002.
- Aberdeenshire Council lost a total of £12m in grant in 1996/97 and 1997/98 due to transitional arrangements. This loss has never been made up.
- Aberdeenshire Council was one of only two Councils in Scotland not to inherit a headquarters building – a problem which cost £9m to resolve.
- The 2010/11 Grant Settlement resulted in a cut to Aberdeenshire Council of £8.4 million: £5.8 million revenue and £2.6m capital funding.

The main focus of this paper is on Government grant per head of population: the other points are important as background and supporting arguments.

Aberdeenshire's allocation of the national grant "cake" is determined by our Grant Aided Expenditure (GAE) figure – the assessment of what Aberdeenshire needs to spend relative to all other councils.

"The GAE calculation aims to be an objective means of determining what each Local Authority would be spending if it was providing a similar level of services at a similar level of efficiency. While GAE is a vital contributor to the calculation of Aggregate External Finance (AEF) and Revenue Support Grant (RSG), it is not intended to be an indication of what an Authority should be spending on a particular service, nor as a guide to local authority spending"¹

In other words, if Aberdeenshire has a GAE figure of £1,243,000 for nursery teaching staff and Dumfries & Galloway has a figure of £670,000, this does not mean that Aberdeenshire Council needs to spend £1,243,000 on nursery teachers. It just means that Aberdeenshire's spending on nursery teachers should be approximately twice that of Dumfries & Galloway.

GAE figures themselves do not therefore translate directly into grant. They are however the building blocks towards calculating the Council's share of government grant and it is in the structure and operation of the GAE mechanism that Aberdeenshire Council's problems lie.

¹ GAE: A Guide to the Calculation Process-Scottish Executive March 2003 p 2 para 1.1

Measured per head of population, Aberdeenshire Council's grant in 2010/11 is 13.6% lower than the Scottish average. While it could be argued that Aberdeenshire does not have the problems of some other councils, it could be expected that councils which are broadly similar in nature would have similar spending and grant levels. The following table, based on the Accounts Commission's family of rural councils, demonstrates clearly that this is not the case:

Table 1 – Family Group

AUTHORITY	Population Estimate 2010	AEF 2010/11	AEF Per Head of Population 2010/11	AEF per head as percentage of Scottish Average 2010/11
		£'s	£'s	
Aberdeenshire	245,999	434,646,000	1,767	86.36%
Perth & Kinross	147,348	264,362,000	1,794	87.70%
East Lothian	98,902	178,188,000	1,802	88.06%
Moray	88,361	172,520,000	1,952	95.43%
Angus	111,162	218,928,000	1,969	96.27%
Midlothian	81,437	162,114,000	1,991	97.30%
Scottish Borders	114,100	230,608,000	2,021	98.79%
Dumfries & Galloway	148,992	322,245,000	2,163	105.72%
Highland	223,099	499,724,000	2,240	109.49%
Argyll & Bute	89,916	230,339,000	2,562	125.22%
Orkney Isles	20,053	74,347,000	3,708	181.22%
Eilean Siar	26,045	114,672,000	4,403	215.21%
Shetland Isles	22,056	98,315,000	4,458	217.88%
Scotland Totals	5,211,403	10,661,687,000	2,046	100.00%

Aberdeenshire again sits at the bottom of the group: there is a difference of 39 percentage points between Aberdeenshire and the highest mainland council.

If Aberdeenshire were to receive Government grant at the average rate per head of population, an additional £69m of services could be financed each year. This would allow us to, for example:

- Maintain all roads to national minimum standards £9 m
- Provide more Social Work services to our most vulnerable citizens £4 m
- Put more teachers into classes £4 m
- Maintain and enhance publicly-owned buildings such as schools and libraries to acceptable standards £40 m
- Tackle waste management issues £4 m
- Improve the quality of service to the public across the board by providing appropriate staff resources £2 m

- Address the challenges of demographic change within Aberdeenshire £1 m
- Avoid cutting services as a result of the anticipated reduction in Government Grant
- And tackle many other issues our residents tell us about

It has been asserted that Aberdeenshire, perceived as a prosperous area, should look to its council tax payers to dig deeper into their pockets to come up with extra cash for services. This is a plausible argument, but now somewhat irrelevant given the proposal to freeze Council Tax for 3 years and develop a replacement. While Aberdeenshire's Band D council tax is £8 below the Scottish average, the average household bill in 2010/11 is £99 higher. Within Aberdeenshire, there are significant variations in prosperity. There are pockets of severe deprivation and poverty, especially in certain rural areas and parts of the north. The existence of such pockets near to other more prosperous areas, serves to aggravate the poverty since prices of many goods, especially houses, are inflated.

In 1996 Aberdeenshire inherited a tradition of low spending from the old councils. At the same time, the rigid guideline regime of the nineties meant that spending had to remain low, while demand for services, much of which had been suppressed by the demitting councils, placed huge financial pressures on the new Council. The result was a nonsensical situation where spending had to be cut to remain within guidelines while demand for adequate services remained unmet. In the meantime, Aberdeenshire's council tax was one of the lowest in Scotland.

By contrast, many of the urban councils in the Central Belt of Scotland had inherited high levels of spend, and were allowed to continue at this level, well above their guidelines, with only a planned gradual reduction over a 20-30 year period being imposed. As a result, Aberdeenshire was unable to expand its council tax base in the early years.

Much of Aberdeenshire's financial problem was created at the 1996 reorganisation: it might be argued that 15 years on it is time to forget the past and move on. But to ignore the iniquities of 1996 is to perpetuate the current problems that are based on the problems created at reorganisation.

With the abolition of guidelines in 2001, the council took the decision to set council tax increases well above inflation to try to address the problem. Council tax increases since then were: 10% in 2001/02; 7½% in 2002/03; 5% in 2003/04, 2004/05 and 2005/06. In 2006/07 the increase was 4.5%, in 2007/08 2.5% and frozen in 2008/09, 2009/10 and 2010/11.

This has had the effect that, while Aberdeenshire still has the 15th lowest Band D Council Tax in Scotland the average household bill, at £1,192 is the 7th highest in Scotland for 2010/11.

STRATEGY

- **Open and Continue the Debate**

We accept that our spending needs are less than many others, so we do not seek settlement better than the average, or even at the average. There is clearly something amiss, however, when within the family of allegedly similar Scottish councils set out in the table above, there is a gap of over 39 percentage points between the highest mainland council (Argyll & Bute) and the lowest mainland council (Aberdeenshire). Aberdeenshire was successful in opening the debate at national level by having the distribution question added to the remit of the Local Government Finance Review Committee (the “Burt” Committee). The Committee reported in late 2006 that:

“in consultation with CoSLA, Ministers should consider the possibility of passing responsibility for the distribution system to an independent body or, alternatively, appointing independent members to the existing Scottish Government/Local Government Committee which oversees the system”

Following on from this report a Political Task Group was recently set up to take forward the review of distribution on behalf of local government. This Task Group was supported by a joint officer group which is made up of a number of Directors of Finance, COSLA officials and Scottish Government officials.

The scope of the review was:

- Consider the distribution of any new funding streams
- Review the distribution of each of the former and current ring-fenced grants to ensure that they continue to be distributed
- Review the validity of the existing indicators and methodology and propose changes as necessary to make sure that the whole process is more equitable.
- Explore the possibility of incentivisation of business rate income.

The review was completed in Autumn 2009 and whilst Aberdeenshire Council notes that the results of the review has been agreed by the majority of Councils in COSLA and accepted by the Scottish Government, the flaws in the calculation of grant distribution still remain and we would wish to see the debate continue.

This was the first of the three issues the original Fair Share paper suggested should be promoted.

- **“Floor”**

The principle of a “floor” in grant calculation, whereby losers are prevented from falling too far is well accepted, and we should **therefore promote the idea of a “floor” for the amount of grant per head of population.** This did not form part of the review mentioned above.

1. If this were set at 90% of the Scottish average, 7 councils would benefit at a modest annual cost of £165m, of which Aberdeenshire's share would be £25m. Whilst we recognised the cut in public spending facing the UK economy, this should not be at the expense of other councils, and we should press for additional money to be made available for this purpose. However a 90% floor could be introduced on a self-financed basis, with the cost being redistributed amongst all Councils, as is done with the floor that is applied to annual grant increases at the moment Aberdeenshire Council could benefit by £18M per annum. In Aberdeenshire's case, an extra £25m or £18m would allow us to:

- Enhance Road Maintenance
- Employ more teachers
- Employ more social workers
- Bring forward Asset Management
- Enhance Waste Management
- Address Demographics
- Enhance Repairs and Maintenance
- Avoid Cutting Services as a result of reduced Government Grant

This is the second of the three issues this paper suggests should be promoted.

- **Simplification**

There are some significant anomalies in the GAE process which forms the basis for grant allocation. For example, Aberdeenshire's GAE, or assessment of relative need to spend for school transport is £3.8m, but estimated spending is £16m.

This latter figure is a realistic cost: the service is subject to competitive tendering, and while the standard of provision of pupil transport is above the legal minimum, it is about average for Scotland.

Other examples are attached in the Appendix. Some of these anomalies are being addressed, but the message is that the grant distribution methodology is seriously flawed. It is accepted, however, that it would be unrealistic to expect any major shift in the distribution end results in the short term. Aberdeenshire Council would ask, however, that there should be nothing done which will cause our position to be further disadvantaged.

The present grant distribution system is based on GAE methodology which involves the use of almost 100 indicators. Several of these are seriously flawed, as exemplified later. About 66% of GAE by value is distributed on the basis of 12 of the 100 indicators. Of the 12, 7 relate to population and 3 relate to school pupil numbers.

The reality is that the existing grant system, which has been in place with modifications since the late 1970s, was designed to meet the needs of the larger regional councils. Because of their size the regions had the ability to accept the

rough with the smooth at an individual assessment level so long as in overall terms their resourcing was sufficient. Also, because central grants were not as significant a percentage of their overall funding, for much of their life gearing was not such a difficult issue for the regional councils as it is for today's councils. The pressures on councils' finances are now far more extreme than in those days and this, taken together with a more target-driven culture and the existence and ambitions of a Scottish Parliament, is a great challenge to existing grant distribution arrangements. They are simply not fit for purpose for today's councils.

There is a case for simplifying the distribution mechanism to target the main areas of spending need in councils and to use indicators that are intuitively, as well as statistically and logically valid.

One of the difficulties of the grant arrangements is that they are very technical and, beyond a few interested individuals, the detail is unintelligible to the majority of people. When democratically elected councils are required to explain the complexities of local government finance to their electorate, understandably the public remains confused, the result being that both local and central government blame each other, while the public blames both. This only serves to undermine democratic accountability and the public's confidence in government, both local and national.

As so much of what councils do relates to people, population should be the major factor in any new arrangement. The main areas of activity by councils are education, which accounts for around half of all spending; social work; and roads. Other important factors are deprivation and poverty, and the dispersal of population.

If the distribution mechanism were to be amended to focus on these areas only as few as eight of the 100 or so existing indicators could be used to measure relative need to spend. Applying the existing weightings to each, as in the existing GAE, gives a revised calculation that shows an increase of £46m in Aberdeenshire's grant.

Applying the existing weightings to each as in the existing GAE might not be appropriate. An alternative calculation, changing the weights to more intuitive levels and giving 50% to population, 25% to education, with the remaining 25% toward elderly population, gives an increase of £24m in grant.

These figures are not intended to be definitive statements of what Aberdeenshire aims for: they are intended simply to illustrate that any reasonable alternative to the existing distribution arrangements would give Aberdeenshire a fairer share of Government grant. On the basis of this work, there is a strong case for a comprehensive review of the existing arrangements for the distribution of grant. This has been confirmed by the Independent Review into Local Government Finance.

- **Recognise Aberdeenshire's Unique Population Profile**

Finally, Aberdeenshire has an aging and increasing population. Changes to the way population data is used would ensure that Aberdeenshire Council is effectively compensated for the impact of these changes.

Spending reviews are normally undertaken every three years and following these reviews 3 year GAE indicators are compiled this forms the basis for grant allocation. The indicators take into account population projections for the three years of the spending review, at that point in time. Therefore population data used to allocate grant funding can be out of date by the time the year of funding arises. Aberdeenshire population has risen faster than forecast and now represents 4.72% of Scotland's population in 2010 compared to a forecast of 4.65%. If up to date population data was used to calculate the grant distribution then Aberdeenshire would attract £3m.

The basis of allocation for 12.5% of revenue support grant are the older people GAE indicators these are partially based on census data from 2001 and partially based on historical population data from 2003-2006. Updating the basis of allocation to reflect the more recent changes of the aging population profile would benefit Aberdeenshire Council.

THE WAY FORWARD

- The debate at national level needs to be continued by the Scottish Government.
- A “floor” of 90% of the Scottish average grant per head of population should be introduced. No council's grant should be below this level.
- The grant distribution should be determined by six major factors:
 - Population
 - Over 85 year olds
 - School pupils
 - Sparsity
 - Deprivation/poverty
 - Road lane length
- Promote the use of up to date population data in the allocation of government grant.

Aberdeenshire Council believes that this paper presents a convincing and conclusive case for change. We will continue to press this case at a national level, and the support of MPs, MSPs, MEPs, local organisations and individuals will help us make our case for a fair share for the people of Aberdeenshire and the North-East.

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May 2010

LGFS/Fair Share paper 0210



GAE ANOMALIES

Rural Deprivation A considerable amount of work was done in 2000 to establish a case for rural deprivation being recognised. This was not taken into account, the Distribution Committee preferring to concentrate all efforts on urban deprivation alone. Huge sums have been put into AEF, and all of it is directed at urban areas.

School Transport Within Aberdeenshire, the School Transport GAE, i.e. the need to spend relevant to all other councils in Scotland, stands at £3.8m. The estimated cost in 2008/09 of School Transport in Aberdeenshire was £16m, thus the GAE represents just over 25% of the actual cost.

The GAE for School Transport for the whole of Scotland is £55m compared to an estimated spend in 2008/09 of £138m. The percentage of GAE to actual spend at a national level is, therefore, 40%, so Aberdeenshire is significantly out of line with the rest of Scotland. This issue has been raised on several occasions at CoSLA, the most recent case being an attempt to get this on to the Agenda of the Data Issues Working Group, a working group which serves the 3 Year Settlement Group. This unfortunately was not accepted by the 3YSG for various reasons which are considered to be unacceptable.

We are undertaking analysis of the overall Scottish position within Aberdeenshire Council and five other rural councils, and to look at alternatives to the existing arrangements for both the distribution and the overall quantum of the GAE for School Transport. This work is now with the Scottish Government, and recently a Political Task Group was set up to take forward a review of the grant distribution mechanism.

Planning	<p>One of the principles of the GAE system is that Councils should not be able to influence indicators. There are still a number of GAEs that are allocated on the basis of Actual Expenditure and/or Budgeted Expenditure, Planning being one of the most prominent. We believe this is still the case currently, although the absence of transparent data means we cannot be certain. In effect, a council can generate a bigger share of grant by spending more. At the end of 2000, the Distribution Committee had an outstanding remit to review these indicators. Nothing has been done to address this anomaly.</p>
Loan Charges Support	<p>At present an amount of grant is set aside (or "top sliced") for meeting the cost of borrowing for capital projects such as roads, bridges, schools etc. With the new flexibility given to councils from 1 April 2004 under the Prudential Code this "top slicing" is now inappropriate. The amount of grant top sliced from the RSG now bears no relation to reality, being based on a notional, not actual, amount of capital spending by each Council. This notional capital spend is then converted into notional borrowing costs, calculated using notional interest rates and principal repayments. From this series of notional calculations comes annual "loan charge support" payments to Councils. Absorbing loan charges support into the total grant would give Councils freedom to decide priorities at a local level.</p>
Special Islands Needs Allowance (SINA)	<p>This element of grant is worth £21.5m to the three Island Councils, Highland, Argyll and Bute and North Ayrshire Councils. It seeks to compensate these councils for the additional costs associated with "islandness". It was introduced in the late 1980s to compensate Orkney, Shetland and Western Isles as a safety net following the introduction of community charge (poll tax). In 1992 SINA was re-defined as being intended to compensate the three island councils for additional financial pressures they faced but which were not recognised within the mainstream GAE calculations.</p>

A review was carried out in 1992 but only on the way the total SINA was distributed between the three Councils. SINA was not at its inception nor in 1992, nor at any subsequent review, justified by any objective or rational measure of need. Work was done on this in 1998 and SINA was extended to a further three councils, but again without any scientific justification. These three simply had some islands in their area. A further review was undertaken in 2000 but this had great difficulty in establishing criteria by which the need for additional resources could be measured.

The work which was done and reported to the CoSLA Distribution Committee in September 2000, is believed to suggest that the additional costs rising from "islandness", far from being £21.5m, the figure allowed in the 2008/09 GAE, are substantially less, possibly half. No action was taken to address this apparent anomaly which has been perpetuated in the current grant settlement.

Earlier Work

Considerable work was done in 2000 to look at simplifying the current complex distribution mechanism. A simplified formula was developed to distribute additional grant monies on the basis of:

- population
- over 85 year olds
- school pupils
- sparsity
- deprivation/poverty
- road length

Aberdeenshire supported this move towards simplification, but felt it should be taken further, and that all grant, not just the additional payments, should be distributed on this basis. There would of course need to be a fairly lengthy transition period to allow councils who had to suffer a reduction in grant to adjust their spending down to nearer the average.

This issue has never been revisited, and is one of the main changes Aberdeenshire would like to see.

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