

Local Government Finance

Methodology for Floor Damping in the 2007/08 Local Government Finance Settlement

Introduction

1. This paper sets out the methodology and financing for the floor damping schemes in the 2007/08 Local Government Finance Settlement.

Which authorities does the scheme apply to?

2. Floor damping will operate for all authorities in the 2007/08 Local Government Finance Settlement. Authorities will again be split into four groups as follows:
 - authorities with responsibility for education and personal social services (“education/PSS authorities”);
 - police authorities (except the City of London and the Metropolitan Police Authority) and the Greater London Authority (police part);
 - fire authorities (except the London Fire and Civil Defence Authority) and the Greater London Authority (fire part); and
 - shire districts in two tier shire areas (i.e. those shire districts which do not have responsibility for education and personal social services).
3. The floor element of the scheme guarantees that no authority will get less than the floor increase in formula grant support from central government. (Formula grant comprises Revenue Support Grant, Redistributed Business Rates, and Principal Formula Police Grant, including the special payment to the Greater London Authority).
4. The floor element therefore represents a ‘cost’ to the system (which is the amount of grant needed to bring all the authorities below the floor up to the level of the floor).

Financing

5. The floors damping system will be self-financing within each group of authorities. Authorities in one group will not cross-subsidise the floor for authorities in another group.

Adjustments

Transfers

6. The floors damping scheme will be based on a 'like-for-like' comparison of formula grant between the 2006/07 baseline and 2007/08, i.e. adjusting for the transfers into and out of the settlement. The adjusted 2006/07 grants resulting from these transfers are detailed in the '*Adjusted 2006/07 Relative Needs Formulae and Formula Grant*' paper.
7. There are no adjustments to the adjusted 2006/07 formula grant amount when deriving the floor for an authority in 2007/08.

The scheme for Education/PSS Authorities

8. The floor level for education/PSS authorities has been set at 2.7% in 2007/08.
9. The reduction in grant for authorities above the floor is calculated by applying a constant re-scaling factor to each authority's increase in grant above their floor level (not their total grant increase). This re-scaling factor is approximately 0.312 for education/PSS authorities in 2007/08.
10. The re-scaling factor is calculated so that when it is applied to all authorities within the group, the saving exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
11. The following table provides a summary of the financing of the floor damping system for education/PSS authorities.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	2.70%	345.428	60
Scaled	-68.84%	-345.428	90

12. Annex A is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by a reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

The scheme for Police Authorities

13. The floor level for police authorities has been set at 3.60% for 2007/08. This means that all police authorities are receiving approximately the average increase.
14. The reduction in grant for authorities above the floor is calculated by applying a constant re-scaling factor to each authority's increase in grant above the floor level (not their total grant increase). This re-scaling factor is approximately 0.021 for police authorities in 2007/08.
15. The re-scaling factor is calculated so that when it is applied to all authorities within the group, the saving exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
16. The following table provides a summary of the floor damping system for police authorities.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	3.60%	129.779	21
Scaled	-97.92%	-129.779	17

17. Annex B is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by the reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

The Scheme for Fire Authorities

18. The floor level for fire authorities has been set at 2.7% in 2007/08.
19. The reduction in grant for the scaled authorities is calculated by applying a constant re-scaling factor to each authority's increase in grant above the floor level (not their total grant increase). This re-scaling factor is approximately 0.089 for fire authorities in 2006/07.
20. The re-scaling factor is calculated so that when it is applied to all fire authorities, the saving from the scaled authorities exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
21. The following table provides a summary of the floor damping system for fire authorities.

Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	2.70%	26.198	8
Scaled	-91.11%	-26.198	23

22. Annex C is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by a reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

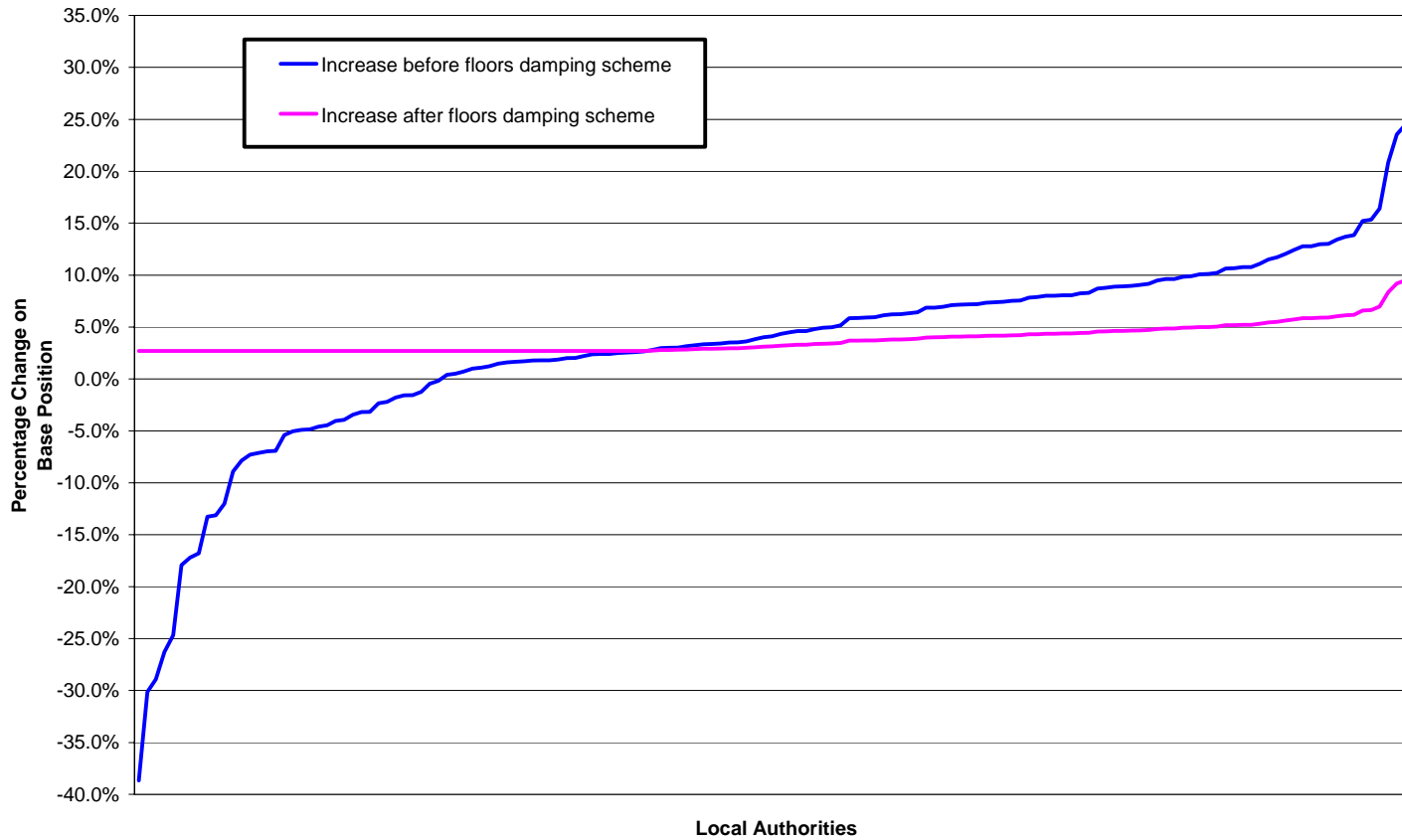
The scheme for Shire Districts

23. The floor level for shire district authorities which do not have responsibility for education/PSS has been set at 2.7% for 2007/08.
24. The reduction in grant for the scaled authorities is calculated by applying a constant re-scaling factor to each authority's increase in grant above the floor level (not their total grant increase). This re-scaling factor is approximately 0.616 for shire districts in 2007/08.
25. The re-scaling factor is calculated so that when it is applied to all authorities within the group, the saving exactly offsets the net cost of the floor. The fact that the scaling factor is only applied to increases above the floor level means that no authority can move from the 'scaled' group to the floor.
26. The following table provides a summary of the floor damping system for shire districts.

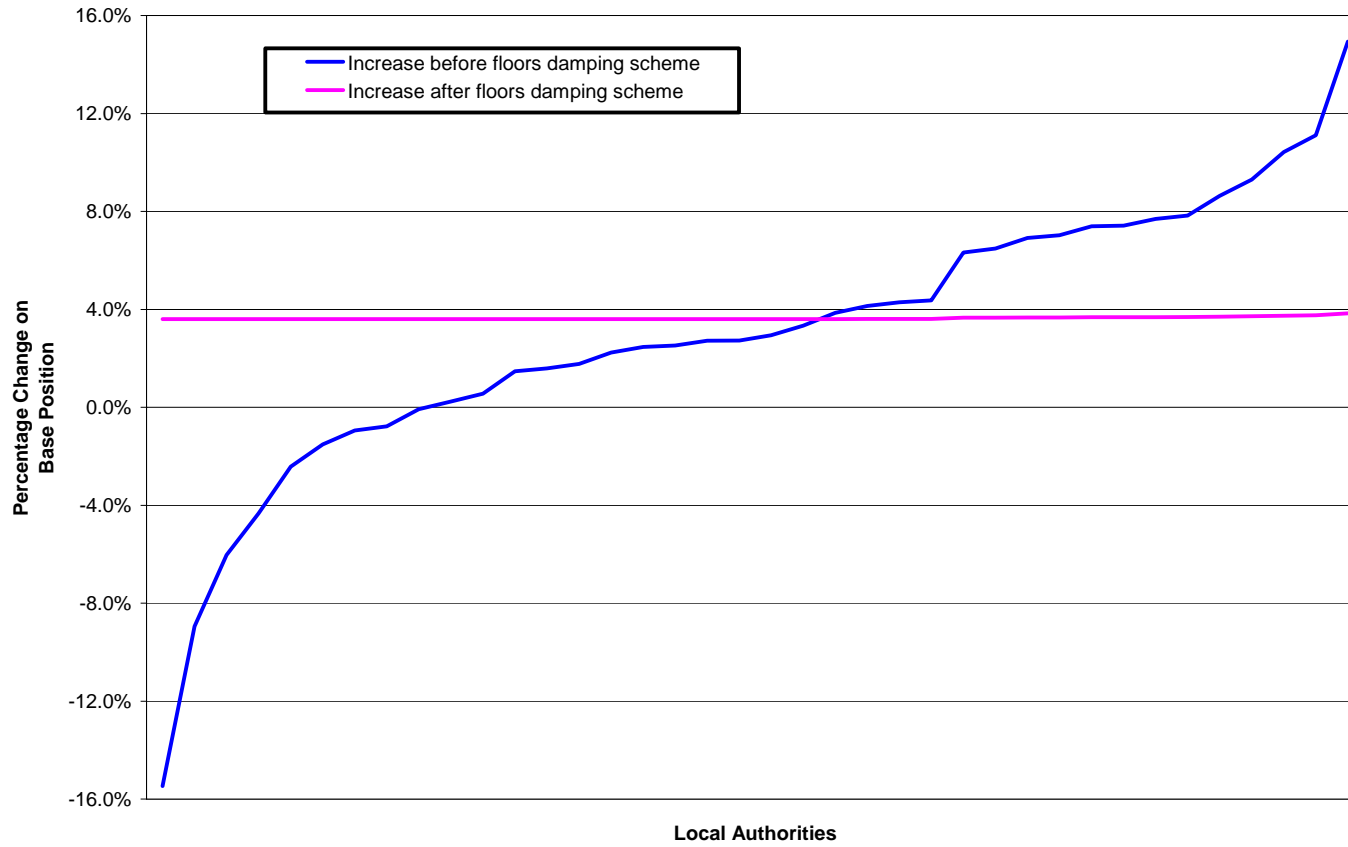
Type of Authority	Level	Cost (£ million)	Number of authorities
Floor	2.70%	21.764	64
Scaled	-38.41%	-21.764	174

27. Annex D is a visual interpretation of how this system works. As can be seen, the net cost of the floor is met by the reduction for the scaled authorities. This is demonstrated by the vertical gap between the scaled authorities grant increases before and after the application of the floors damping scheme.

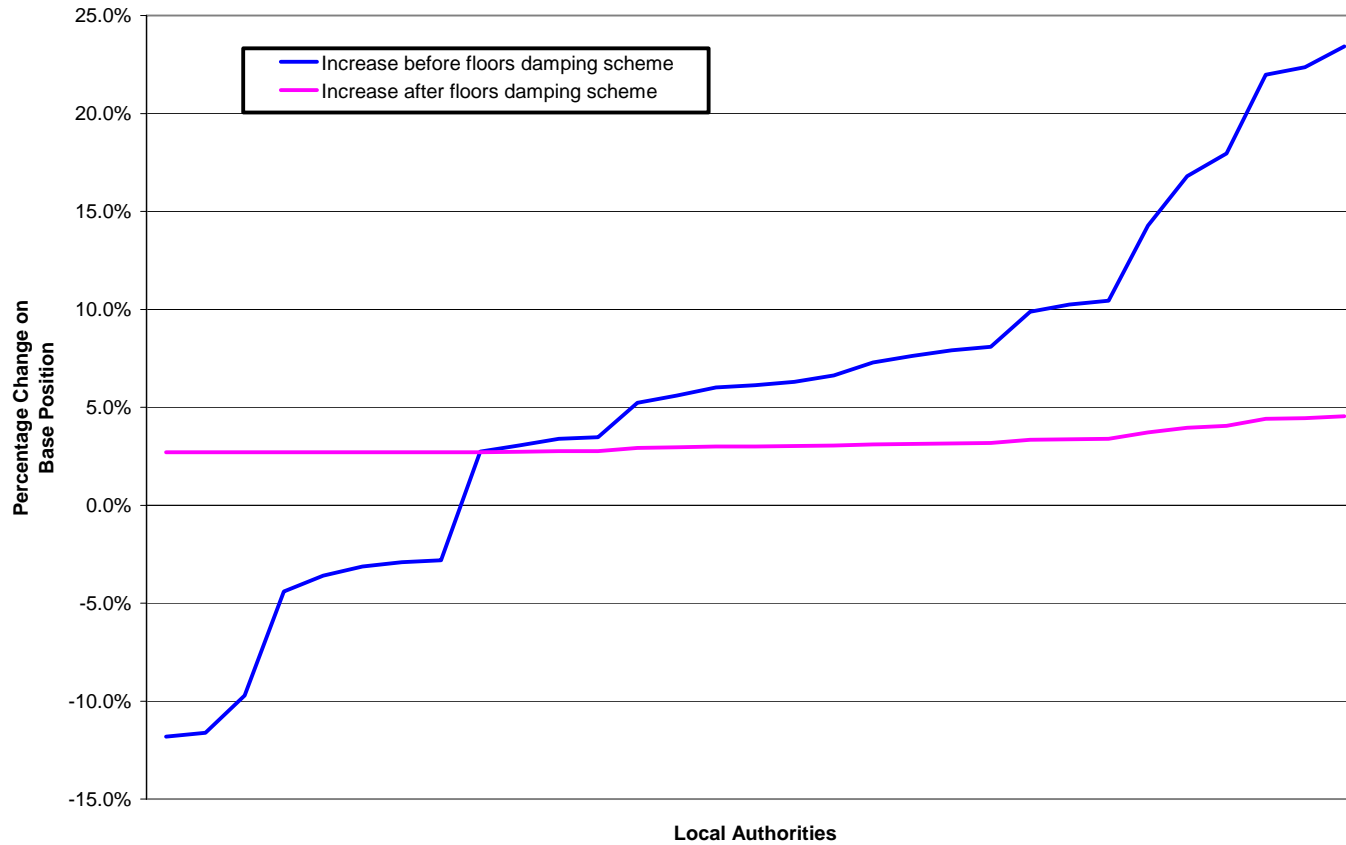
**2007/08 Floor Damping Scheme for Education/PSS Authorities:
2.7% floor**



**2007/08 Floor Damping Scheme for Police Authorities:
3.6% floor**



**2007/08 Floor Damping Scheme for Fire Authorities:
2.7% floor**



**2007/08 Floor Damping Scheme for Shire Districts:
2.7% floor**

