

## Floor Damping Briefing Note

The government has applied some form of damping – on an irregular and inconsistent basis - to the Local Government Finance Settlement for a considerable number of years. Damping means that the grant due to be received under the Formula Grant allocation is adjusted in order to either phase in changes and/or avoid an excessive impact on groups of authorities. There has been some sort of damping consistently in place since 1994-95.

The current thinking on damping is based on the general principle that no local authority should see a year on year cut in its Formula Grant, and that authorities that benefit from any change in the method of allocating grants do not see a large increase in any one year. This principle was established during the review of local authority funding between 1998 and 2001 and meets the government's aims for the Formula Grant System of Stability and Robustness.

### 2007/08

Floor damping was applied to all authorities as part of the 2007/08 Local Government Finance Settlement. Authorities were again split into the same four groups as they have been for a number of years: -

- Authorities with responsibility for education and personal social services (e.g. Shire Counties);
- Police authorities;
- Fire authorities;
- Shire districts in two tier areas (i.e. those shire districts which do not have responsibility for education and personal social services.

The floor element of the scheme guarantees that no authority will get less than the floor increase in formula grant<sup>1</sup> support from central government.

The floor element 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.

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

The floor damping scheme is based on a 'like for like' comparison of formula grant between the 2006/07 baseline and 2007/08 i.e. adjusting for any changes to functions or financing via specific grants.

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<sup>1</sup> Formula grant comprises Revenue Support Grant and Redistributed Business Rates.

## Scheme for Education/Social Services Authorities

The floor level for education/social services authorities has been set at 2.7% in 2007/08.

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 (rounded) for education/social services authorities in 2007/08.

The following table illustrates the effect of the scaling factor.

		<b>Derbyshire</b>	<b>Surrey</b>
<b>A</b>	2006/07 Formula Grant	£129,973,124	£102,801,349
<b>B</b>	Multiplied by floor 2.70%	£133,482,398	£105,576,985
<b>C</b>	Amount prior to floor damping (Relative Needs Amount, Relative Resources Amount and Central Allocation)	£146,581,113	£63,045,999
<b>D</b>	C – A	£13,098,715	–£42,530,986
<b>E</b>	Multiplied by Scaling factor	0.31163458	0.31163458
<b>F</b>	Scaling Factor Adjustment	£4,082,013	–£13,254,126
<b>G</b>	Formula Grant 2007-08 (The result of <b>B</b> , or <b>B + F</b> , whichever is the greater)	£137,564,411	£105,576,985
	Increase in Grant	5.84%	2.70%

The 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 a grant increase above the floor down to the floor level as a result of the damping applied.

It also means that the quicker the authorities receiving the floor increase can be brought up to a level where they receive an increase above this level the quicker that Derbyshire CC will receive the full increase that the current formula calculates we should receive.

The following table provides a summary of the financing of the floor damping system for education/social services authorities.

Type of Authority	Cost (£m)	Number of authorities
Floor	345.438	60
Scaled	-345.428	90

At the time of the 2006/07 settlement 17 counties were on the floor. This number had reduced to 15 by the time of the 2007/08 settlement in January 2007.

The following table lists both the floor and scaling factors used for each damping group in the 2006/07 settlement, and the final 2007/08 settlement.

Damping Group	2006/07 Final Settlement Floor	2007/08 Final Settlement Floor
Education/PSS	2.0%	2.7%
Police	3.1%	3.6%
Fire	1.5%	2.7%
Shire Districts	3.0%	2.7%

Damping Group	2006/07 Final Settlement Scaling Factor	2007/08 Final Settlement Scaling Factor
Education/PSS	0.15500478657 <b>84.5%</b>	0.31163458065 <b>68.8%</b>
Police	0.02836450266 <b>97.2%</b>	0.02078028270 <b>97.9%</b>
Fire	0.12824802649 <b>87.2%</b>	0.08891055263 <b>91.1%</b>
Shire Districts	0.49038100598 <b>51.0%</b>	0.61588205294 <b>38.4%</b>

The above table shows that the amount of any increase above the floor that is now left with those authorities has risen from 15.5% in 2006-07 to 31.2% in 2007-08 with every expectation that it will rise further in future settlements. We will have a clearer idea after CSR07 is announced later this year and the government issues multi-year Formula Grant settlements covering 2008-09, 2009-10 and 2010-11.

The following table shows the gain/loss (as a percentage and monetary amount) for county members from the damping mechanism in 2006/07, and the final 2007/08 settlement.

Authority	2006/07 [undamped] Formula Grant		2006/07 Damping Effect		2007/08 [undamped] Formula Grant		2007/08 Provisional Damping Effect	
CCN Members	£ 3,806.268	£ 55.099	1.4%	£ 3,942.339	£ 45.161	1.1%		
Shire Counties	£ 3,627.694	£ 60.105	1.7%	£ 3,755.493	£ 52.068	1.4%		
Police Auth. (Inc City)	£ 7,083.967	£ 6.930	0.1%	£ 7,342.043	£ 5.943	0.1%		
Fire Authorities	£ 966.987	£ 0.000	0.0%	£ 995.653	-£ 0.000	0.0%		
Inner London	£ 1,921.886	-£ 34.963	-1.8%	£ 1,961.040	-£ 12.225	-0.6%		
Outer London	£ 1,639.699	£ 50.985	3.1%	£ 1,682.790	£ 50.780	3.0%		
Metropolitan Authorities	£ 4,951.297	-£ 32.933	-0.7%	£ 5,112.863	-£ 48.454	-0.9%		
Unitary Authorities	£ 2,857.917	-£ 50.124	-1.8%	£ 2,952.009	-£ 48.112	-1.6%		
Shire Districts	£ 1,764.468	£ 0.000	0.0%	£ 1,831.118	£ 0.000	0.0%		
<b>ENGLAND</b>	<b>£ 24,813.914</b>	<b>£ -</b>	<b>0.0%</b>	<b>£ 25,633.008</b>	<b>£ -</b>	<b>0.0%</b>		
South West GOR	£ 1,861.321	-£ 36.195	-1.9%	£ 1,928.829	-£ 35.644	-1.8%		
South East GOR	£ 2,572.152	£ 142.338	5.5%	£ 2,652.541	£ 134.636	5.1%		
London GOR	£ 5,669.688	£ 70.589	1.2%	£ 5,828.468	£ 91.275	1.6%		
Eastern GOR	£ 2,014.544	-£ 3.187	-0.2%	£ 2,088.556	-£ 3.039	-0.1%		
East Midlands GOR	£ 1,850.071	-£ 66.255	-3.6%	£ 1,921.022	-£ 65.891	-3.4%		
West Midlands GOR	£ 2,808.366	-£ 85.862	-3.1%	£ 2,907.446	-£ 88.459	-3.0%		
Yorkshire & Humber GOR	£ 2,653.908	-£ 29.688	-1.1%	£ 2,746.599	-£ 38.387	-1.4%		
North East GOR	£ 1,550.276	£ 23.082	1.5%	£ 1,600.043	£ 21.739	1.4%		
North West GOR	£ 3,833.588	-£ 14.823	-0.4%	£ 3,959.504	-£ 16.230	-0.4%		
<b>ENGLAND</b>	<b>£ 24,813.914</b>	<b>£ -</b>	<b>0.0%</b>	<b>£ 25,633.008</b>	<b>£ -</b>	<b>0.0%</b>		
Bedfordshire	£ 54.601	£ 5.986	11.0%	£ 55.977	£ 5.917	10.6%		
Buckinghamshire	£ 39.026	£ 10.158	26.0%	£ 40.172	£ 9.658	24.0%		
Cambridgeshire	£ 94.156	-£ 0.081	-0.1%	£ 96.370	-£ 0.359	-0.4%		
Cheshire	£ 84.033	£ 2.877	3.4%	£ 85.355	£ 3.396	4.0%		
Cornwall	£ 127.928	-£ 5.751	-4.5%	£ 134.639	-£ 6.669	-5.0%		
Cumbria	£ 112.144	-£ 6.286	-5.6%	£ 117.576	-£ 6.390	-5.4%		
<b>Derbyshire</b>	<b>£ 138.306</b>	<b>-£ 7.533</b>	<b>-5.4%</b>	<b>£ 146.581</b>	<b>-£ 9.017</b>	<b>-6.2%</b>		
Devon	£ 120.517	-£ 1.328	-1.1%	£ 126.438	-£ 3.457	-2.7%		
Dorset	£ 36.632	-£ 6.297	-17.2%	£ 37.363	-£ 4.498	-12.0%		
Durham	£ 139.930	-£ 5.329	-3.8%	£ 147.451	-£ 6.834	-4.6%		
East Sussex	£ 75.469	£ 4.279	5.7%	£ 77.549	£ 4.005	5.2%		
Essex	£ 185.723	£ 16.469	8.9%	£ 191.499	£ 14.617	7.6%		
Gloucestershire	£ 94.076	-£ 1.329	-1.4%	£ 97.445	-£ 2.289	-2.3%		
Hampshire	£ 98.717	£ 21.626	21.9%	£ 99.399	£ 23.293	23.4%		
Hertfordshire	£ 125.497	£ 22.222	17.7%	£ 127.258	£ 23.178	18.2%		
Kent	£ 218.520	£ 7.691	3.5%	£ 226.832	£ 1.853	0.8%		
Lancashire	£ 233.784	-£ 11.018	-4.7%	£ 241.677	-£ 9.195	-3.8%		
Leicestershire	£ 76.527	£ 2.718	3.6%	£ 78.618	£ 1.259	1.6%		
Lincolnshire	£ 148.498	-£ 9.775	-6.6%	£ 155.901	-£ 9.786	-6.3%		
Norfolk	£ 193.767	-£ 24.758	-12.8%	£ 202.864	-£ 20.962	-10.3%		
North Yorkshire	£ 82.734	-£ 6.521	-7.9%	£ 85.551	-£ 5.364	-6.3%		
Northamptonshire	£ 125.271	£ 0.340	0.3%	£ 128.217	-£ 0.283	-0.2%		

Authority	2006/07 [undamped] Formula Grant		2006/07 Damping Effect		2007/08 [undamped] Formula Grant		2007/08 Provisional Damping Effect	
	£		£		£		£	
Northumberland	£	80.048	£	1.058 1.3%	£	84.085	-£	0.781 -0.9%
Nottinghamshire	£	133.526	-£	5.628 -4.2%	£	139.690	-£	6.069 -4.3%
Oxfordshire	£	83.765	£	7.669 9.2%	£	85.486	£	6.775 7.9%
Shropshire	£	53.957	-£	0.530 -1.0%	£	56.342	-£	1.180 -2.1%
Somerset	£	91.829	-£	6.271 -6.8%	£	95.870	-£	5.900 -6.2%
Staffordshire	£	119.277	-£	1.138 -1.0%	£	124.091	-£	2.567 -2.1%
Suffolk	£	135.425	-£	7.423 -5.5%	£	140.555	-£	7.305 -5.2%
Surrey	£	65.089	£	38.337 58.9%	£	63.046	£	42.531 67.5%
Warwickshire	£	72.717	£	1.778 2.4%	£	74.739	£	1.088 1.5%
West Sussex	£	63.962	£	16.309 25.5%	£	65.363	£	16.415 25.1%
Wiltshire	£	55.934	£	4.203 7.5%	£	57.327	£	4.028 7.0%
Worcestershire	£	66.307	£	3.382 5.1%	£	68.168	£	2.958 4.3%
<b>SHIRE COUNTIES</b>								
<b>TOTAL</b>	£	<b>3,627.694</b>	£	<b>60.105 1.7%</b>	£	<b>3,755.493</b>	£	<b>52.068 1.4%</b>

The table appears to show 'winners' and 'losers' amongst counties with a "loss" of 12% raw Formula Grant in Dorset, to a "gain" of 67% in Surrey. However those counties with a "loss" are the ones that will have the highest year-on-year increase in Formula grant and the "winners" are all on a flat 2.7% year-on-year change.

The damping effect for Derbyshire Police Authority and Derbyshire Fire Authority is shown below.

Authority	2006/07 [undamped] Formula Grant		2006/07 Damping Effect		2007/08 [undamped] Formula Grant		2007/08 Provisional Damping Effect	
	£		£		£		£	
Derbyshire Fire Authority	£	16.185	£	3.172 19.5%	£	16.920	£	3.057 18.0%
Derbyshire Police Authority	£	102.022	£	5.485 5.4%	£	105.817	£	5.703 5.4%

The damping effect for district councils in Derbyshire is negligible.

After damping the increases for all counties is as follows:

Authority	2006/07 Adjusted Formula Grant	2007/08 Provisional Formula Grant	Difference
CCN Members	£ 3,831.617	£ 3,987.501	£ 155.883 4.1%
Shire Counties	£ 3,659.453	£ 3,807.561	£ 148.108 4.0%
Police Authorities (Inc City)	£ 7,090.831	£ 7,347.985	£ 257.155 3.6%
Fire Authorities	£ 966.987	£ 995.653	£ 28.665 3.0%

Authority	2006/07 Adjusted Formula Grant		2007/08 Provisional Formula Grant		Difference	
Inner London	£	1,880.825	£	1,948.815	£	67.990 3.6%
Outer London	£	1,679.951	£	1,733.569	£	53.619 3.2%
Metropolitan Authorities	£	4,891.870	£	5,064.409	£	172.539 3.5%
Unitary Authorities	£	2,787.483	£	2,903.897	£	116.415 4.2%
Shire Districts	£	1,749.000	£	1,831.118	£	82.118 4.7%
<b>ENGLAND</b>	<b>£</b>	<b>24,706.400</b>	<b>£</b>	<b>25,633.008</b>	<b>£</b>	<b>926.608 3.8%</b>
South West GOR	£	1,815.492	£	1,893.185	£	77.693 4.3%
South East GOR	£	2,696.456	£	2,787.176	£	90.720 3.4%
London GOR	£	5,723.380	£	5,919.743	£	196.363 3.4%
Eastern GOR	£	2,000.804	£	2,085.517	£	84.713 4.2%
East Midlands GOR	£	1,775.944	£	1,855.131	£	79.187 4.5%
West Midlands GOR	£	2,710.465	£	2,818.988	£	108.523 4.0%
Yorkshire and Humber GOR	£	2,614.907	£	2,708.212	£	93.305 3.6%
North East GOR	£	1,567.654	£	1,621.782	£	54.129 3.5%
North West GOR	£	3,801.299	£	3,943.274	£	141.974 3.7%
<b>England</b>	<b>£</b>	<b>24,706.400</b>	<b>£</b>	<b>25,633.008</b>	<b>£</b>	<b>926.608 3.8%</b>
Bedfordshire	£	60.267	£	61.894	£	1.627 2.7%
Buckinghamshire	£	48.519	£	49.829	£	1.310 2.7%
Cambridgeshire	£	93.329	£	96.011	£	2.682 2.9%
Cheshire	£	86.417	£	88.751	£	2.333 2.7%
Cornwall	£	121.666	£	127.970	£	6.304 5.2%
Cumbria	£	105.446	£	111.186	£	5.740 5.4%
Derbyshire	£	129.973	£	137.564	£	7.591 5.8%
Devon	£	118.223	£	122.980	£	4.757 4.0%
Dorset	£	30.018	£	32.865	£	2.847 9.5%
Durham	£	133.909	£	140.618	£	6.709 5.0%
East Sussex	£	79.411	£	81.555	£	2.144 2.7%
Essex	£	200.697	£	206.116	£	5.419 2.7%
Gloucestershire	£	91.645	£	95.156	£	3.511 3.8%
Hampshire	£	119.466	£	122.692	£	3.226 2.7%
Hertfordshire	£	146.481	£	150.436	£	3.955 2.7%
Kent	£	222.673	£	228.685	£	6.012 2.7%
Lancashire	£	222.317	£	232.482	£	10.165 4.6%
Leicestershire	£	77.777	£	79.877	£	2.100 2.7%
Lincolnshire	£	137.960	£	146.115	£	8.155 5.9%
Norfolk	£	167.880	£	181.902	£	14.022 8.4%
North Yorkshire	£	75.715	£	80.188	£	4.473 5.9%
Northamptonshire	£	124.446	£	127.934	£	3.488 2.8%
Northumberland	£	80.770	£	83.304	£	2.534 3.1%
Nottinghamshire	£	127.433	£	133.621	£	6.188 4.9%
Oxfordshire	£	89.835	£	92.261	£	2.426 2.7%
Shropshire	£	53.191	£	55.162	£	1.971 3.7%
Somerset	£	85.005	£	89.971	£	4.966 5.8%
Staffordshire	£	117.197	£	121.524	£	4.326 3.7%
Suffolk	£	126.527	£	133.250	£	6.723 5.3%
Surrey	£	102.801	£	105.577	£	2.776 2.7%
Warwickshire	£	73.833	£	75.826	£	1.993 2.7%
West Sussex	£	79.628	£	81.778	£	2.150 2.7%
Wiltshire	£	59.742	£	61.355	£	1.613 2.7%

Authority	2006/07 Adjusted Formula Grant		2007/08 Provisional Formula Grant		Difference	
Worcestershire	£	69.256	£	71.126	£	1.870 2.7%
<b>SHIRE COUNTIES TOTAL</b>	<b>£</b>	<b>3,659.453</b>	<b>£</b>	<b>3,807.561</b>	<b>£</b>	<b>148.106 4.0%</b>

The table shows that the County Council had the sixth largest increase in Formula Grant, well above the county average.

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.

## Conclusion

The Council has made contributions to various government reviews of local authority funding during which we have emphasised the need for fairness and stability within any grant system. The approach to floor damping adopted by the government reflects these concepts by guaranteeing minimum increases for all councils.

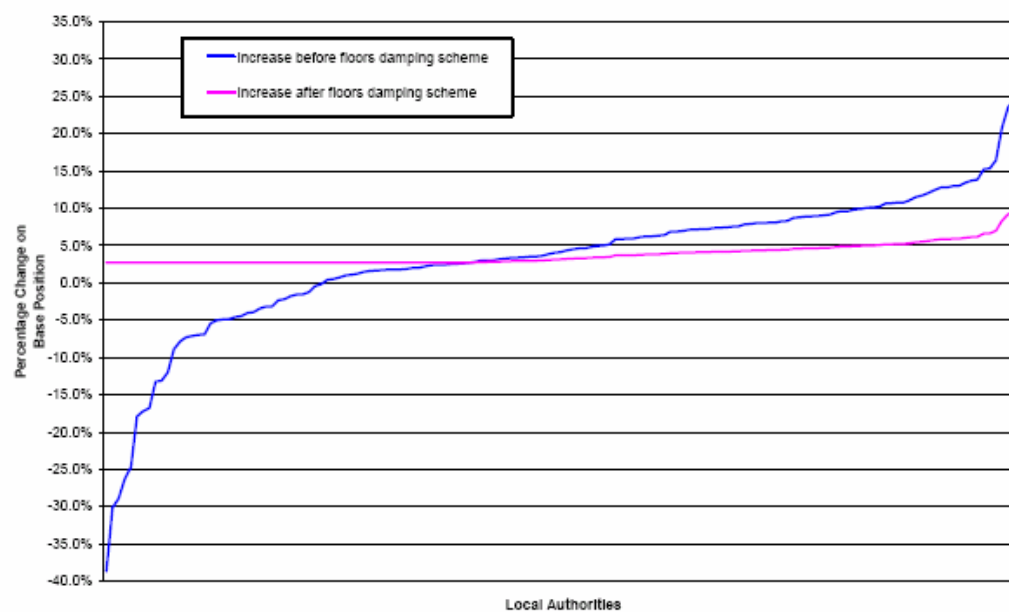
The government is committed to some form of floor damping mechanism as it provides an element of stability of year on year increases, as well as providing an element of transparency within the funding formula. The removal of floor damping could give rise to turbulent grant increases which does not aid the financial planning process.

The vagaries associated with the Formula Grant system are such that the method of allocation are reviewed on a regular basis and produce different distributions of grant with alarming regularity. This gives rise to the potential for a council to gain from a change in one year and lose from a further change a few years down the line; if the grant system didn't damp these results the potential volatility would be extremely difficult to manage.

From 2008-09, the Local Government Settlement will move to three-year settlements. The Local Government Settlement Working Group is looking at alternative methods of damping. It recognises that the most important driver of relative need to spend is population and for this reason it is currently looking at damping on a per head basis. A wider consultation process with Authorities will take place later this year before the first three-year settlements are released in December.

The main outcome the Council should be looking for as part of the multi-year settlements would be a clear expectation over the period during which the damping will fully unwind.

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



The graph shows the volatility of the damping mechanism, although the Authority acknowledges that damping will become less unstable over time. The Government's aim is to provide a Local Government Settlement framework which gives local authorities stable grant increases.