



(NR TWG 19/07/17) Minutes: Meeting of Technical Working Group on Needs & Redistribution

Title: **Needs & Redistribution Technical Working Group**
Date: **Wednesday 19 July 2017**
Venue: **Southwark Council, Tooley Street, London, SE1 2QH**

1. Attendance

1.1. A full attendance list is attached as an Annex to this note.

2. Welcome and Introductions

- 2.1. DCLG confirmed the Government's continued commitment to the Fair Funding Review, and that it remained legitimate to proceed with the Review under any potential future system of local government finance.
- 2.2. The loss of the LGF Bill at the Election had provided an opportunity for the Government to now work with the sector to consider the best way forwards in terms of Business Rates Retention and the wider local government finance landscape. In this context Ministers were now considering the timescales for this work, including the Review, given that these were previously tied to what would have been the end of the last Parliament.

ALATS update

- 2.3. Duncan Whitfield provided an overview of the work of the Association of Local Authority Treasurer Societies (ALATS) sub-group, which has considered a new redistribution methodology that initially begins with a set of primary key cost drivers (e.g. population, geography and poverty), and reflects some secondary cost drivers based on particular service areas. Where possible ALATS has worked to identify forward looking cost drivers and consider the type of analytical approach required to determine weightings.
- 2.4. Prior to the Election, LG Futures has been commissioned by ALATS to produce a working model based on the above approach, and this has now been completed. At present the model does not take account of local resources or area costs.
- 2.5. ALATS had also worked on the assumption that transitional arrangements would be necessary between the current system and a new system of redistribution, for the purposes of sustainability and to avoid step changes in baseline funding levels. A five year period had been discussed.
- 2.6. Paul Woods felt that the ALATS model was accessible but felt that it needed to be built up from a service base, based on service analysis and the available evidence.

- 2.7. Graeme Bentley noted that there was consensus across the Treasurers' Societies that the approach taken by ALATS was logical.
- 2.8. Geoff Winterbottom noted that the ALATS model did not currently determine the proportion of funding that would be allocated to different areas. Duncan confirmed that ALATS' view was that these weightings would ultimately require ministerial judgement and that it would be beneficial for this to be subject to some external validation.
- 2.9. Alan Cross felt that if the group was broadly in favour of the approach proposed within the model, then the group should consider providing some form of guidance to ministers on the weightings to be used based rather than leave this open.
- 2.10. DCLG confirmed that it would be necessary to determine a sound basis on which to determine the weighting between service blocks. More broadly the process of developing the Review needed to be robust, and based on the best possible evidence base that would offer confidence in the end result.
- 2.11. DCLG thanked the group for their recent work and noted the high degree of alignment between the work underway within the department and through the group, that of ALATS.

Action 1): DCLG to update and recirculate minutes of last meeting to reflect amendments provided by Paul Woods and Alan Cross.

3. Fair Funding Review update and overview - DCLG

- 3.1. DCLG presented an overview which included:
- The terms of reference and guiding principles of the Review,
 - The analytical options appraisal that is underway to identify analytical techniques for the Review, and
 - The next steps for the Review.
- 3.2. Geoff Winterbottom noted some of the principles could potentially conflict with each other and that it was important to strike the optimum balance.
- 3.3. Paul Woods felt that there would be value in including a principle which aligned the Review with wider government policy. DCLG responded that a principle of this nature ran the risk of being too broad and unfocussed.
- 3.4. Geoff Winterbottom felt that the principles should be aligned with what local government is actually being asked to do. DCLG agreed and stated that this was implicit within the principles and in particular, the priorities relating to sustainability and stability.
- 3.5. Jenny Owens asked about the position of DCLG ministers on the Review in relation to the level of judgement that may be involved. DCLG replied that they were continuing to work with ministers on the Review. Many responses to last year's Call for Evidence expressed concern about the level of judgement that may be involved and in response, the guiding principles had been established which specify the transparency and objectivity of the Review.

- 3.6. DCLG described the analytical option appraisal that is underway specifically to identify a simple and transparent foundation formula and some of the implications this raised, such as how best to reflect the tiers of authority. The Review is also considering whether there may be a need to identify individual service areas where a more specific approach is required, with a proportion of the available funding allocated based on specific cost drivers for those services.
- 3.7. Dave Shipton highlighted the importance of developing more than one option, given that there won't be a perfect solution. DCLG clarified that this would be the case as option appraisals were taking place in relation to each potential service specific area identified, as well as the foundation formula.
- 3.8. Geoff Winterbottom asked if one of the options might be to update existing data, noting that this would be difficult for some areas due to the availability of welfare benefit data. DCLG confirmed that this represents a 'do minimum' option for some areas.
- 3.9. DCLG explained that statistical techniques offered an evidence based approach for determining which cost drivers have a significant impact on a local authority's 'need to spend' and which, therefore, should be included in a funding formula. These techniques also enable the relative importance of a cost driver in determining 'need to spend' to be quantified. Without these techniques, judgement would necessarily play a greater role in determining funding allocations.
10. The options appraisal work will consider potential improvements to expenditure based regressions by using more advanced analytical techniques to address concerns relating to the influence that historic levels of funding have on levels of spending. One option being considered is multi-level modelling, which may be particularly appropriate for service areas that are high cost and where future demand is difficult to predict
- 3.11. Jenny Owens mentioned the new Department of Health Adult Social Care funding formula, which was presented to the group last year, and asked whether this was being considered as a potential option for this service area. DCLG confirmed that this was one option under consideration.
12. Geoff Winterbottom queried the term cost driver and whether the Review is actually concerned with cost correlation. DCLG confirmed that cost drivers are mentioned in relation to statistical techniques, and used to explain patterns of need (the dependent variable). There must be data available to map the cost drivers and a robust method for scaling the cost drivers. In order to achieve this, a number of key criteria for including cost drivers in a formula have been identified, and are set out in the overview paper.
13. Key criteria have been identified that cost drivers should meet in order to be included in a formula are set out in the overview paper.
- 3.14. The group discussed the implications of using past expenditure to weight cost drivers, which cost drivers should be used and what alternative statistical methods may be available. DCLG confirmed that the options appraisals were exploring alternative variables that may better explain need.

15. Duncan Whitfield mentioned that any new cost drivers should only be included if they make a significant difference. He also felt that we should consider incentivising good behaviour across the sector. DCLG acknowledged this point, confirming that cost drivers should be relevant and there should be evidence to demonstrate that the cost driver has a significant impact on the cost of providing services.
- 3.16. DCLG introduced the options appraisal work that was underway in relation to the area cost adjustment (ACA). This work will also consider whether it is appropriate to have some measure of deprivation or rurality within the ACA.
- 3.17. Paul Woods mentioned the pressures in some areas as a result of the Living Wage, and the importance of identifying contemporary labour costs from local authorities rather than just relying on past ASHE data.
- 3.18. Paul Honeyben commented that the ACA currently uses data from the SAR return which has been reduced in recent years. DCLG confirmed that one aspect of the ACA work underway was to identify the most appropriate data sources.
- 3.19. Geoff Winterbottom queried the potential inclusion of deprivation within the ACA as he considered deprivation to be a driver for demand rather than a factor that affects the cost of service provision. He also pointed out that there are degrees of deprivation and that the Review should consider how to reflect these variations. Dave Shipton pointed out that the cost of service provision across an authority could be linked to the state of the local labour market, with one example being the variable costs of social care contracts.
- 3.20. DCLG agreed that deprivation had traditionally been seen as primarily driving demand, and was considered as a proxy for eligibility for some non-universal services. The Review will however consider whether there is also a relationship between deprivation and the higher cost of service provision in some areas. One example of this may be children's services where there is some evidence to suggest that deprivation affects the number of 'inputs' required in order to achieve the same level of service outcome.

Action 2): DCLG will present a discussion paper at the next TWG meeting on the Area Cost Adjustment.
- 3.21. DCLG introduced the options appraisal work that was underway in relation to deprivation, and the implications of the roll-out of Universal Credit (UC). One option under consideration is the potential use of the Indices of Multiple Deprivation (IMD), the next update of which is anticipated in 2019.
- 3.22. Duncan Whitfield described ALATS' approach to this, which was to consider the impact of poverty rather than deprivation. ALATS' view is that entitlement to a welfare benefit such as UC was a product of other poverty factors and cited examples including the level of social housing and population density.
- 3.23. Dave Shipton mentioned the Kent Wellbeing Index tool, created by Kent Public Health Observatory, which takes account of material wellbeing and reflects their most deprived areas.

3.24. Paul Honeyben mentioned that there were several different domains to IMD, and cited the importance of aligning the work of the Review with any future IMD release.

Action 3): DCLG will present a discussion paper at the next TWG meeting on Deprivation, with attendance from a member of the IMD team.

3.25. DCLG provided a high level overview of the timing and forward plan for the Review and future TWG meetings.

Action 4): DCLG will provide a more detailed forward plan for the Review and Technical Working Group meetings.

3.26. Aiva explained that the LGA would be reviewing the existing working arrangements to ensure that the Steering Group and Working Groups were working effectively and communicating with a wide selection of stakeholders. In the meantime he asked that all TWG members ensure that they are communicating the work around Business Rates Retention and the Review back through their representative groups.

4. Discussion paper regarding the approach to resources in the Fair Funding Review (NR TWG 17/01) – DCLG

Resources: Local Council Tax Support costs and funding (July 2017) – Paul Woods

4.1. DCLG presented a paper which described the current resources landscape across council tax, and the other sources of income available to authorities including sales, fees and charges. The paper set out some possible approaches to assessing the relative resources of authorities and the associated implications. It also described some of the incentives and behaviours that may be encouraged depending on the approach taken. The paper responded to some of the specific areas that were raised at the last TWG meeting.

4.2. Aiva Statkevičius and Nick Everleigh pointed out some issues with Figure 1, which illustrates council tax as a percentage of revenue expenditure in 2015/16.

Action 5): DCLG will review the graph and circulate an amended version of the paper to the group.

4.3. Geoff Winterbottom mentioned the graph he had circulated separately, which plots average council tax per dwelling against deprivation. He mentioned that compared to the values based on average Band D properties mentioned in the DCLG paper, this measure of council tax was an average per household and therefore the values were more skewed towards higher averages in less deprived areas.

4.4. Paul Woods presented a paper on local council tax support (LCTS), which discusses the devolution of the scheme and the subsequent funding arrangements, producing distributional impacts. Paul stated that there needed to be more transparency around the funding of LCTS.

4.5. Nick Everleigh pointed out that authorities giving a lower council tax discount could face more of a challenge in the collection of this council tax.

4.6. Paul Woods commented that it is a very complex area and it might be possible to take a monetary value looking at average council tax, but not reflecting actual policy decisions at a local level. He mentioned that an assumed standard of adjustment

where a certain amount is received by authorities regardless of local policy decisions might be an option, given the complexities involved.

- 4.7. Dave Shipton pointed out that discretion was exercised by lower tier authorities over LCTS and that the decisions taken should not disadvantage upper tier authorities.
- 4.8. Aiva Statkevičius mentioned that it could be possible to look at the way LCTS was distributed in 2013-14 and consider adding indicators to reflect how demand may have changed over time.
- 4.9. Paul Honeyben pointed out that LCTS could equally be part of a relative needs assessment or part of a resources adjustment.
- 4.10. Geoff Winterbottom pointed out that there is no discretion around pension-age LCTS recipients.
- 4.11. Duncan Whitfield mentioned that it would be helpful to have a clear narrative on the purpose of council tax within the wider context of local government finance.
- 4.12. Geoff Winterbottom highlighted the link with the Better Care Fund allocations, which are adjusted to take council tax into account.
- 4.13. Alan Cross mentioned that the resources paper was slightly inconsistent in some areas when discussing council tax levels (either as the level of CT set or the proportion of the total LA budget funded through CT). He also pointed out that there are some inaccuracies within RO data.
- 4.14. DCLG concluded the discussion by stating that in contrast to the work on relative need, there was less scope for a robust analytical solution to how the Review would take relative resources into account.

Action 6): Group members were asked to:

- **Consider a favoured option from those identified in the resources paper and the groups discussion,**
- **Consider the basis on which it would be possible to explain and defend this approach, and**
- **Circulate a response by email via the group or directly to DCLG.**

- 4.15. DCLG presented the sales, fees and charges (SFC) section of the paper.
- 4.16. Chris Tambini discussed the potential incentive effects of how SFC is taken into account, and questioned whether there was some justification for looking at the characteristics of LAs and their relative ability to raise income rather than simply penalising those that do.
- 4.17. Nick Everleigh cited the example of LAs that have used capital funding to pay for schemes such as car parks or crematoriums, and that looking at SFC in isolation could skew the assessment, creating a disincentive. Nick also cited the importance of using net expenditure as there was often a revenue cost associated with these income raising activities.
- 4.18. Geoff Winterbottom agreed that it would be better to take account of an authority's

income raising capacity so there is an incentive for them to do so, rather than penalising an authority which has already done this.

- 4.19. Aiva Statkevičius pointed out that we shouldn't lose sight of authorities' abilities to raise income via SFC; not all authorities are able to raise income to the same extent due to limitations in their area.
- 4.20. Duncan Whitfield explained that ALALTS had focussed on CT during their resources discussion as SFC was a very complex area. He thought it may be helpful to define what the purpose of SFC is in the context of local government finance and that we should be cautious in tackling some of the 'outlier' LAs with high levels of SFC income as this may be offsetting wider costs (e.g. number of day visitors).
- 4.21. Two additional principles were proposed for consideration; these were 'control' if taking into account charging for parking, and 'consistency,' relating to discretion afforded to authorities, and the overlap with council tax.
- 4.22. There were also comments on the potential of burdening authorities, and that good behaviours may be lost, particularly those who were aiming to move towards self-sufficiency with the strategic use of SFC income.
- 4.23. There were several comments detailing the complexity of the system. Nevertheless parking may be a suitable area to consider. It was mentioned that the extra costs of day visitors could be met by parking revenue, and it was suggested that these two areas may be linked.

5. Any other business: DCLG asked if there was any other business, comments or questions

5.1. None

Annex: Meeting attendees

Attendee	Organisation
Stuart Hoggan (Chair)	DCLG
Trefor Henman	DCLG
Charlie Coleman	DCLG
Emily Gascoigne	DCLG
Stephen Smith	DCLG
Duncan Cook	DCLG
Matthew Mitchell	DCLG
Aivaras Statkevičius	LGA
Duncan Whitfield	SLT
Nick Everleigh	SDCT
Nikki Bishop (apologies) Substitute: Graeme Bentley	SMT
Chris Tambini	SCT
Alan Cross (Phone)	SUT
Graham Biggs	RSN
Dave Shipton	CCN
Geoff Winterbottom	SIGOMA
Paul Honeyben	London Councils
James Walton	Shropshire
Graham Soulsby	East Mids
Carla-Maria Heath	IRRV
Jenny Owens	SCT Analysis Unit
David Northey	South West
Paul Woods	North East CA
Martin Mitchell	GLA
Adrian Blaylock (apologies) Substitute: Laura Deery (Phone)	CIPFA