



Department for  
Communities and  
Local Government

# Resources workstream – approach to council tax

**Fair Funding Review Technical Working Group**

November 2017

NR TWG 17-08

Department for Communities and Local Government



- Background
- Illustrative scenarios
- Conclusions and next steps



So far the Fair Funding Review Technical Working Group has considered three papers on council tax:

- Paul Woods delivered a paper last August on differences in ability to raise council tax income; DCLG delivered an introductory paper in January on approach to resources, and then delivered a more detailed scoping paper in July.
- DCLG's July 2017 paper focussed on:
  1. Factors which affect a local authority's ability to raise income through council tax – both council tax base and the level which is set;
  2. The data which is held by the Government;
  3. High level approaches to factoring council tax income into a needs assessment, and
  4. How the Review should consider factors over which local authorities have discretion and which they can influence.



To put this presentation into context, we know that...

- Council tax income as a ratio to 'need' varies widely across England.
- As well as factors over which councils have little or no control, local decisions also determine council tax income. This includes, for example, the Band D level set, or discretionary discounts.
- This means local decisions or factors outside the local authority's control could influence settlement allocations.
- Historically, when setting baselines, the Government has used a 'notional' approach to council tax levels.

**This presentation will build on the July paper to focus on council tax. It will:**

- Outline different recent precedents for taking account of council tax in funding allocations, which have produced different outcomes;
- Use these to produce three illustrative scenarios for approaches to council tax; and
- Consider distributional impacts, drawing links between tax base and other factors.



- Background
- **Illustrative scenarios**
- Conclusions and next steps



## Illustrative analysis

The most appropriate treatment of council tax income will depend on the objectives of the system.

- In the following slides we will present the distributional impacts of three scenarios to illustrate that there are a spectrum of options available – from no account of council tax income to full account, and choices in between.
- We will also show that there are interactions between council tax base, council tax levels and area characteristics.
- There are considerations which may be discussed alongside the illustrative impacts:
  - The extent to which different options may allow for local decisions or factors outside the local authority's control to affect settlement allocations;
  - How to take resources into account over a multi-year settlement, and
  - Other factors which affect council tax income including those over which councils have no control, such as the prevalence of residents eligible for non-discretionary discounts, or referendum principles.



## We have considered 3 recent precedents... ...to create illustrative scenarios for further analysis

### Scenario 1:

#### No account of CT resource

- The 2017-18 settlement distributed £241m of adult social care support grant using the Adult Social Care relative needs formula (RNF)
- This distribution made **no** allowance for the size of an authority's council tax resources – neither base nor Band D level.
- Such a system would benefit those areas with high levels of council tax income relative to their need.

### Scenario 2:

#### Account for potential CT resource

- At the 2013-14 Settlement, it was assumed local authorities treated discretionary discounts in the same way and set the same Band D.
- Funding baselines were set so that the total of business rates and a notional council tax measure were allocated to follow the same distribution of need.
- Such a system accounts for potential local authority CT resources. This will be explored in later slides.

### Scenario 3:

#### Full account CT of resource

- Settlement Core Funding was introduced in 2016-17 – a methodology which reduced an LA's business rates, RSG and council tax income (as measured in 2015) by a set percentage.
- The iBCF methodology also uses potential actual income to distribute funds.
- Such funding systems take full account of the size of an authority's council tax resources, including the actual Band D levels set.
- This benefits those areas with low council tax relative to their need.



## Visualisation of distributional effects

- In the following slides, we look at local authorities' shares of funds compared to their shares of relative need. This will be plotted on the y axis.
- “Shares of funds” are shown for “share of business rates” (in purple), “share of business rates and actual council tax” (in green), and “share of business rates and council tax requirement from a notional level” (in grey).
- This is an informative benchmark: for example, some local authorities may have shares of spending power exceeding their share of relative need: for example, 10% of England spending power but only 5% of relative need. A value larger than 1 means that a local authority receives a larger share of the total pot than their relative need would suggest
- If all local authorities set the same council tax level, some would meet their relative need more easily than others. A proxy for ability to meet relative need through locally generated funds is the taxbase divided by relative need. A high value means that the income from a given council tax level is large compared to need: the local authority meets need relatively easily. This will be plotted on the x axis.
- The following charts use anonymised, upper-tier authorities. All data are taken from 2013-14. The quantum of funding has been set to draw out the key issues.





## Scenario 1: No account of CT

Those with the highest ability to meet their need locally  
will benefit the most

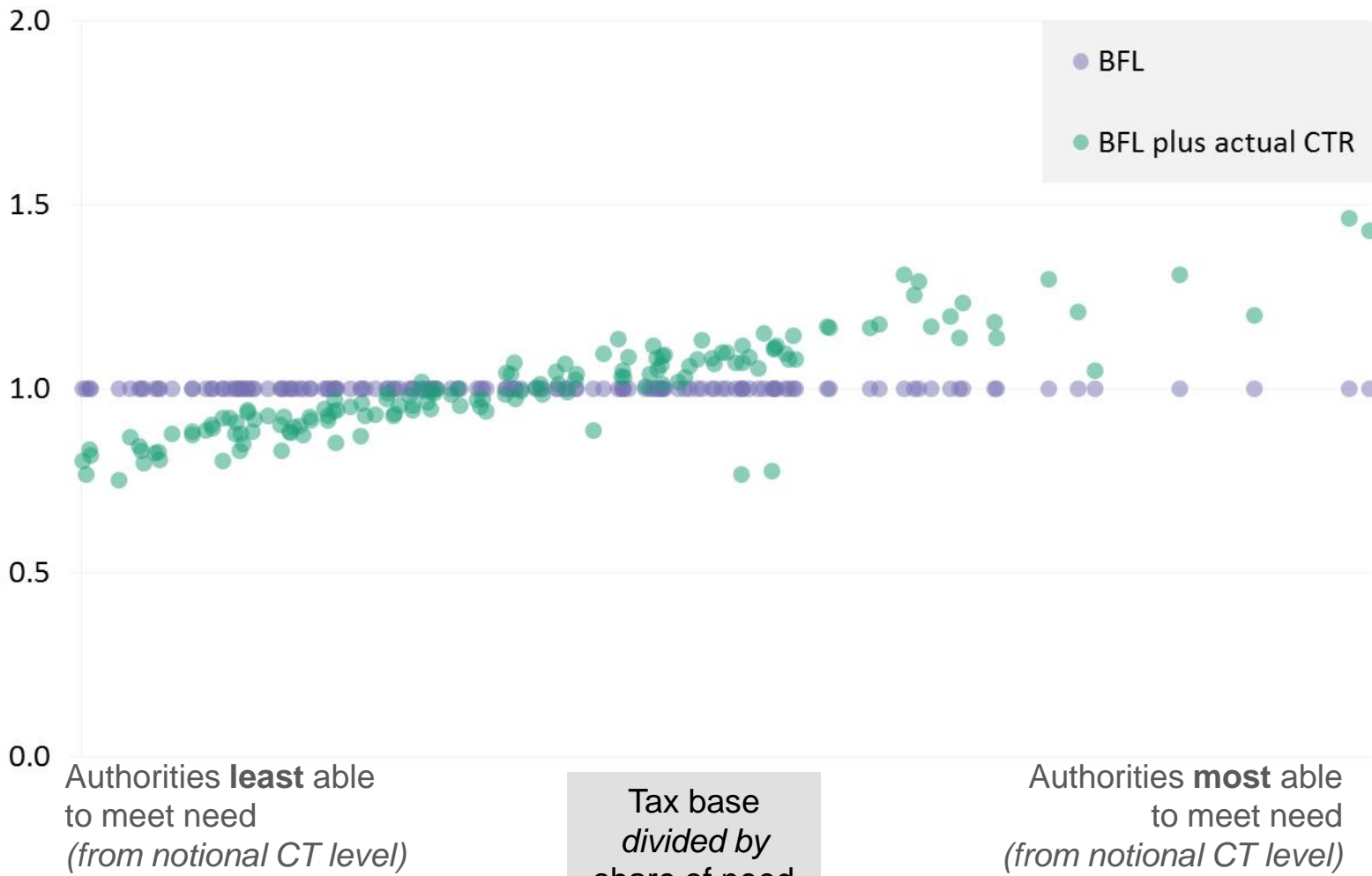
- When business rates are distributed according to need with no account of CT, authorities with a large CT income compared to their need benefit: their large CT resource is not reflected in their allocation.
- On the following graph this is shown by LAs with high ability to meet need through council tax (those on the right of the chart) having a larger share of spending power than their share of relative need (their green dots are above one).



# Scenario 1: No account of CT

Those with the highest ability to meet their need locally  
will benefit the most

Authorities with  
a share of funds  
**larger** than  
share of need



Share of funds  
*divided by*  
share of need

Authorities with  
a share of funds  
**smaller** than  
share of need

Authorities **least** able  
to meet need  
*(from notional CT level)*

Tax base  
*divided by*  
share of need

Authorities **most** able  
to meet need  
*(from notional CT level)*

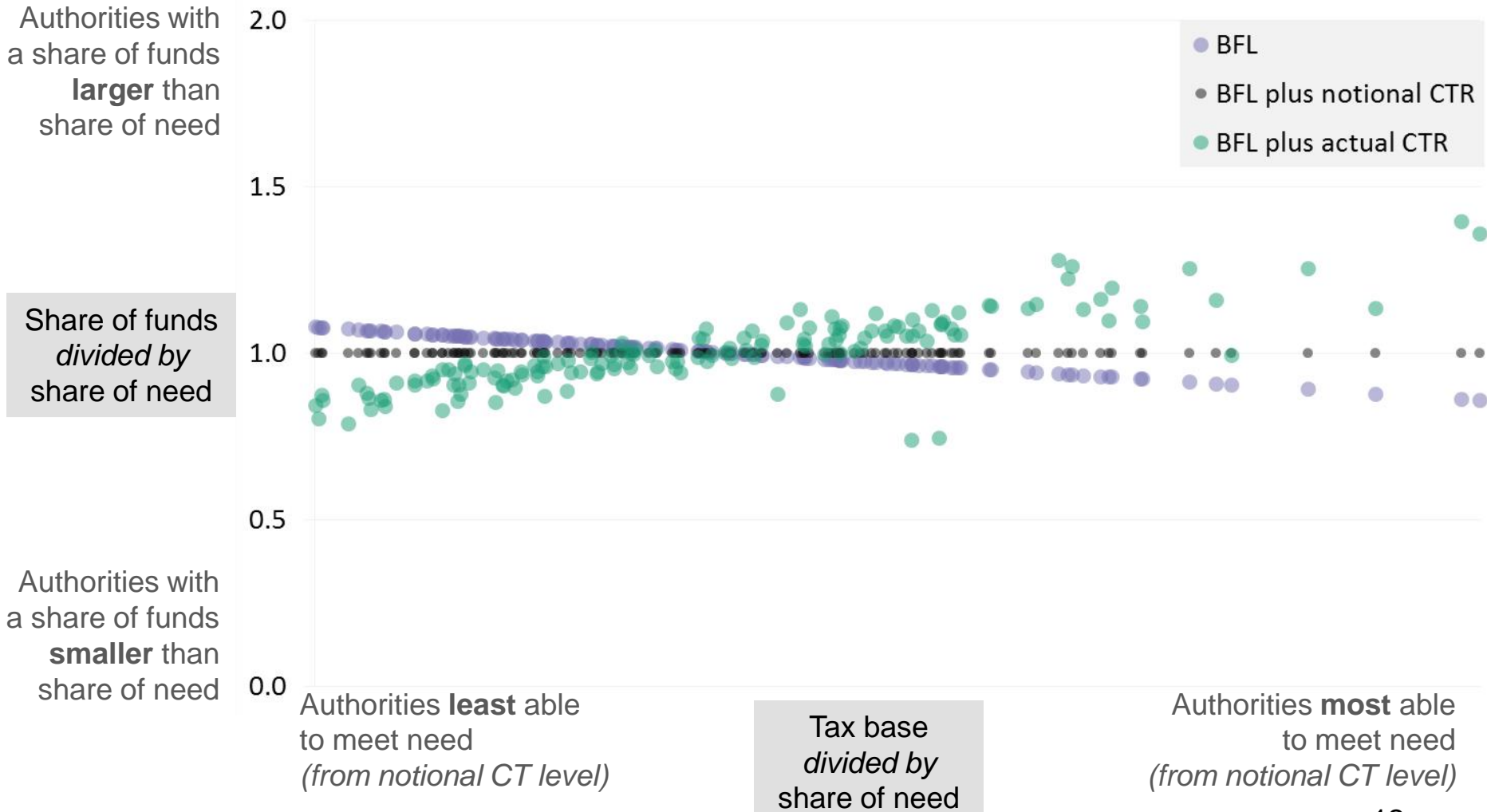


## Scenario 2i: Business rates and council tax set at a notional level of £250

- Setting a low notional council tax level changes the distribution.
- Local authorities still benefit from council tax charged above the notional level. LAs with low ability to meet need locally get a share of business rates higher than their need share (the purple dots are above one for local authorities on the left).
- For these local authorities, their actual position gets closer to their need share (the green dots get closer to one).
- This is balanced by authorities most able to meet their need through council tax receiving a share of business rates which is lower than their relative need share (the purple dots are below one).



## Scenario 2i: Business rates and council tax set at a notional level of £250





## Scenario 2ii: Business rates and council tax set at a notional level of £1,250

- Changing the notional council tax level changes the distribution. A higher notional council tax means LAs benefit from council tax above a higher threshold.
- In this example all LAs have a share of spending power close to their need share (the green dots are all close to one, apart from some outliers).
- This is achieved by giving shares of business rates that are different from shares of need.
- In this example, LAs least able to meet need through council tax receive large shares of business rates relative to their need (the purple dots are above one).
- LAs with large council tax bases relative to their need receive small shares of business rates relative to their need.

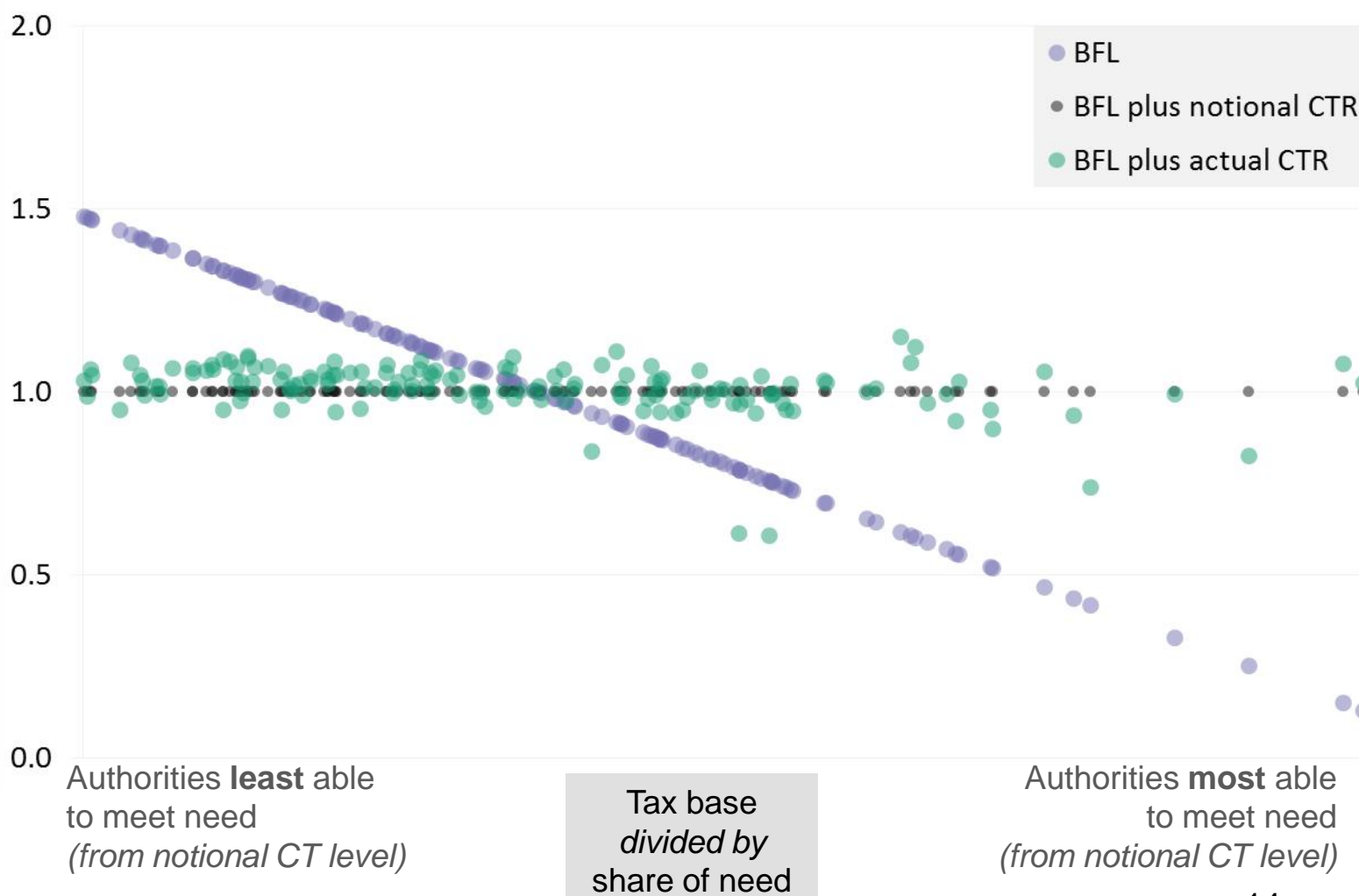


## Scenario 2ii: Business rates and council tax set at a notional level of £1,250

Authorities with  
a share of funds  
**larger** than  
share of need

Share of funds  
*divided by*  
share of need

Authorities with  
a share of funds  
**smaller** than  
share of need





## Scenario 3: Full account of CT

Authorities with low ability to meet their need through local taxation would need a larger share of business rates. Reduced incentive to raise council tax.

- Taking all of CT into account means that the share of spending power is equal to the share of need for all local authorities (the green dots are all on one).
- This is done by giving shares of business rates that depend on local decisions about council tax levels (the purple dots vary with local authority).
- LAs charging high council tax do not see correspondingly high spending power, and LAs with low council tax are fully compensated.



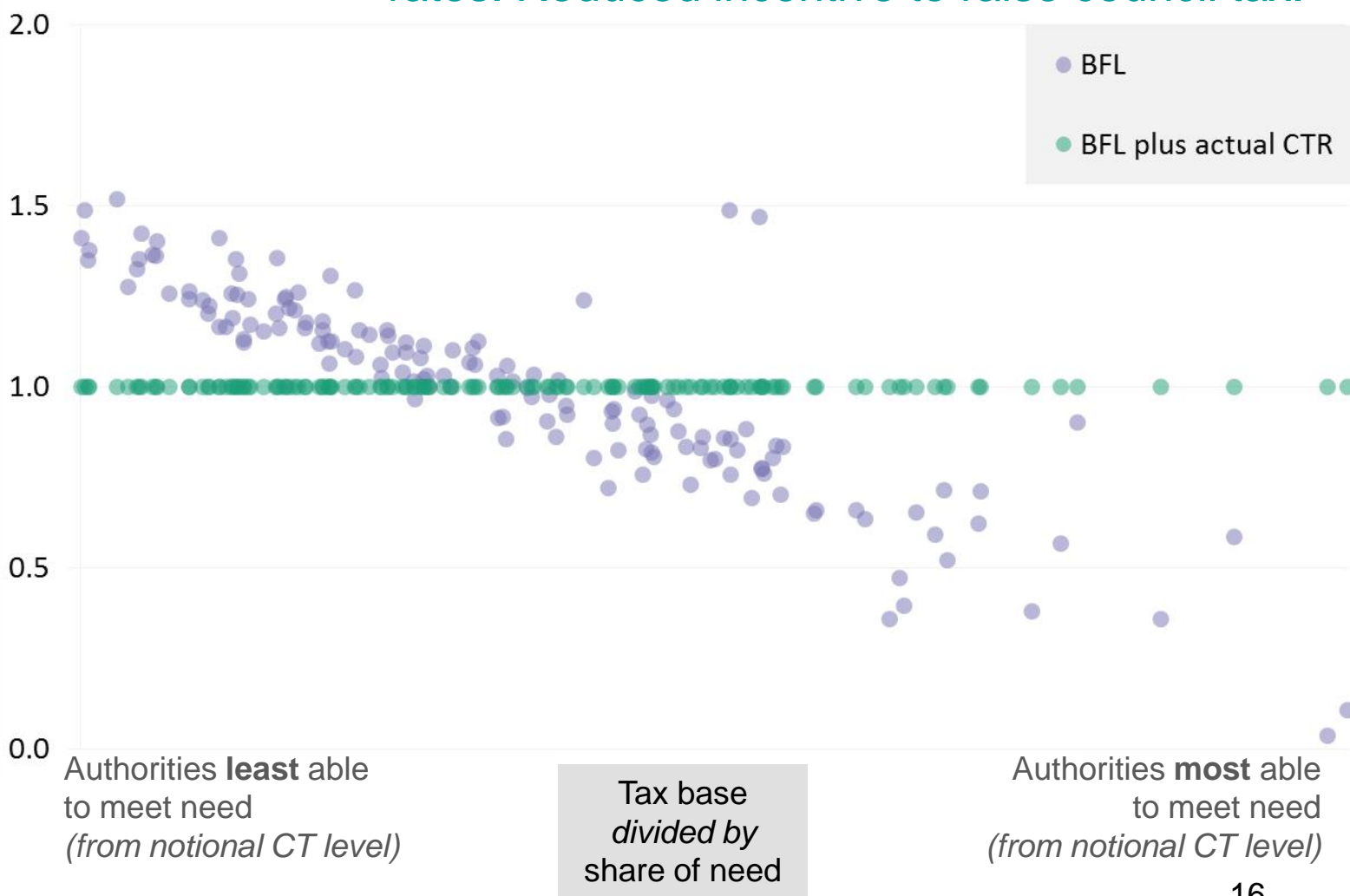
### Scenario 3: Full account of CT

Authorities with low ability to meet their need through local taxation would need a larger share of business rates. Reduced incentive to raise council tax.

Authorities with a share of funds **larger** than share of need

Share of funds *divided by* share of need

Authorities with a share of funds **smaller** than share of need







## There are a number of interactions between the tax base, need and council tax levels

- **One such interaction is the link between deprivation and the ratio of tax base to need.**
- Deprivation will be reflected through relative need in the Fair Funding Review. It also interacts with the tax base.
- Deprived areas typically have a higher proportion of low band properties. They also typically have a higher proportion of dwellings eligible for council tax exemptions.
- These combined mean that deprived areas typically have a low tax base when compared to the number of dwellings.
- Deprived areas also typically have a high need per person, as recognised by the current RNFs.
- This means a more deprived area may be less able to meet their need through council tax income than a less deprived area.
- As such, the most deprived local authorities are toward the left of the charts. This means that, for example, under Option 1 (no account of resource), deprived areas would have a lower share of spending power than their share of need.



## Tax base, need and deprivation interaction

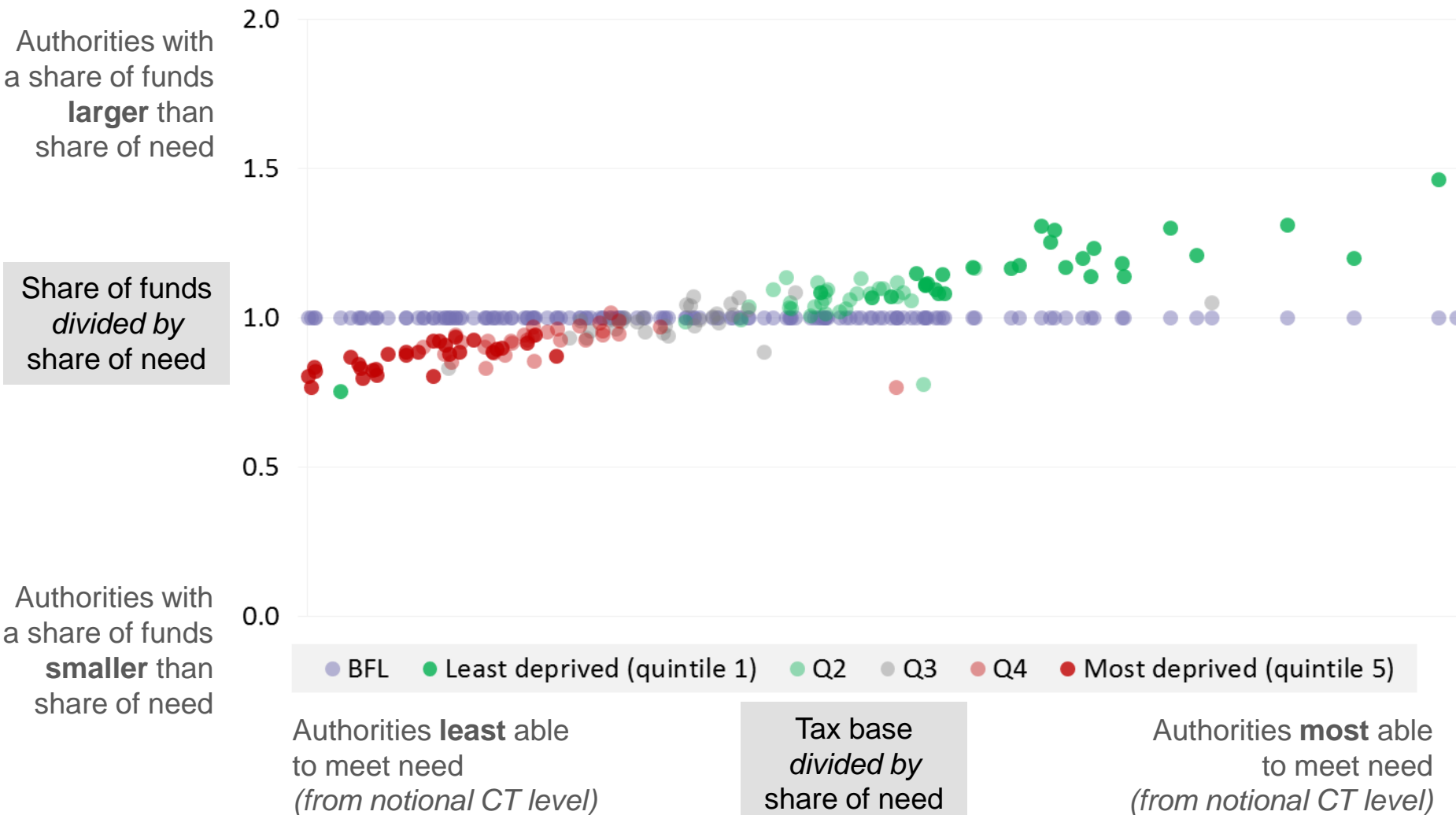
### Shown for case with no resource consideration

- Deprived areas tend to have low council tax bases relative to their need. This means the most deprived areas tend to be on the left of the chart.
- This means that when there is no consideration of resources, deprived areas have a lower share of spending power than their relative need (the most deprived authorities have their dots below one).
- This is true even when deprivation is taken into account in the need block.
- This adds support to the case for taking resources into account and may inform how to do so.



# Tax base, need and deprivation interaction

Shown for case with no resource consideration





Background

Illustrative scenarios

**Conclusions and next steps**



Department for  
Communities and  
Local Government

We have illustrated three hypothetical scenarios to inform discussion of options available for the treatment of council tax income.

- Some scenarios would tend to favour areas with relatively high ability to meet need through local taxation while others favour areas where this ability is relatively low.
- The different way the LGF system takes resources into account may have particular impacts on areas with certain characteristics – such as those with a high prevalence of residents in receipt of discounts, or which generate more income through precepts than others, or areas with greater deprivation, etc.

“Taking resources into account” could mean, for example:

- Having a higher or lower notional council tax level in a resources adjustment
- Having a larger or smaller percentage of actual council tax requirement considered

**We would welcome the group’s views on the analysis presented to inform policy thinking on the treatment of council tax in the Fair Funding Review.**



- As the way the system takes resources into account will affect different areas in different ways, it may be beneficial to consider more interactions between the tax base, council tax levels and areas with certain characteristics using similar scenarios.
- Furthermore, the Fair Funding Review will continue with more analysis on:
  - factors which affect council tax base including discounts – both discretionary and non-discretionary;
  - how to take council tax into account over a reset period;
  - further analysis on sales, fees and charges and other commercial income, and
  - further analysis on notional council tax levels.
- We will return to resources in the early Spring, and hope to publish a technical paper later in the Spring for which TWG input will be required.