Title: **Needs & Redistribution Technical Working Group**

Paper: NR TWG 17-09 Discussion paper regarding the approach to Local Council Tax Support in the Fair Funding Review by the Special Interest Group of Municipal Authorities (SIGOMA)

Date: 16 November 2017

Venue: Southwark Council

1. **Background**
   1. As central funding diminishes Council Tax is becoming an increasingly important element of funding. This is true of every authority but the following chart may help to illustrate why the members we represent are concerned at the prospect of a trend in this direction without any balancing adjustment.



**In 2013 -14 Council Tax of £20,637 million represented 43% of overall local authority funding. The proportion at individual authority level varied from as low as 18% to as high as 68%. The chart shows it was the less deprived councils that tended to have the highest proportions of Council Tax Funding**

* 1. This trend is projected to continue, with Council Tax at 2019-20 projected at £27,585 million, representing on average 61% of Spending Power and as much as 90% at individual authority level.
  2. The resource adjustment has been a historic and important feature of settlement formula and remains a feature of the baseline needs calculation within business rates retention, albeit the value of resource adjustment diminishes as settlement funding diminishes.
  3. The value of the resource adjustment in 2013-14 to local authorities was £16.2 billion.
  4. £6.2 billion was within the headline £6,550 million Relative Resource (RR) adjustment “block”. Group members will be aware that “Needs” and “Central Share” allocations are inflated by the Relative Resource value. Authorities are allocated an increased Needs & Central share but have that allocation reduced by their share of RR value within net funding, coming back to DCLGs overall control total for formula.
  5. In addition, there was a similar adjustment of £10 billion within Central Share or “Basic Amount” (BA) block. The amount of BA allocated in 2013-14 of £9,987 million comprised a basic needs element of £21,414 and a basic resource element of £11,423[[1]](#footnote-1), offsetting each other for a net allocation to each authority.
  6. The quantum of the resource adjustment was part of the Government-set control totals and, it will hopefully be clear from the above, did not impact on the overall funding total. If the total value of RR increased then either total needs block or total basic amount would also increase and vice-versa. The amounts of RR and BA were set by Ministers and not linked explicitly to values of band d tax or council tax requirement. The impact on authorities depended on whether their needs share proportions were higher or lower than their resource proportions.
  7. In 2013-14 when the gross adjustment was £16.2 billion the total value of Council Tax[[2]](#footnote-2) was £19.1 billion, the comparison for formula elements and Council Tax by region were:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2013-14 Formula and Council Tax by Region | Gross formula allocations adjustment[[3]](#footnote-3)  £m | Council Tax support grant added to formula £m | Gross resource adjustment  £m | Resource  / Gross formula  % | Net  Council  Tax requirement  £ m | Resource  / Council Tax  % |
| Shire districts | 2,083 | 168 | -1,051 | 50.4 | 1,149 | 91.5 |
| Shire Counties | 9,666 | 921 | -6,020 | 62.3 | 7,797 | 77.2 |
| Inner London | 2,804 | 187 | -1,079 | 38.5 | 764 | 141.2 |
| Outer London | 3,416 | 337 | -1,673 | 49.0 | 1,759 | 95.1 |
| Unitary | 7,450 | 725 | -3,504 | 47.0 | 4,254 | 82.3 |
| Metropolitan Districts | 7,966 | 807 | -2,860 | 35.9 | 3,363 | 85.0 |
| Total £m\_average % | **33,385** | **3,145** | **-16,187** | **48.5** | **19,086** | **84.8** |

* 1. As might be expected, the ratio of resource adjustment relative to gross formula varies, and in a way that we might expect. If inner London and Met districts could be depicted as relatively high needs, they have the lower ratio of resource to needs adjustment with mets the lowest at 35.9%.
  2. Perhaps less intuitive is the % variation in Resource as a proportion of Council Tax income. Since the Resource Adjustment is based on fixed values multiplied partly by Council Tax base and partly by population, the ratio is higher for relatively low band D and lower for relatively high band D.
  3. If all authorities had the same level of band D tax we would expect the proportions to be more similar. In fact there is a significant variation in the values of Band D set by authorities. This variation has been consistent over the last 5 years. The next table shows a box plot of the regional variations at 2017 which are similar to those at 2011.

***Box plot – Average Band D Council Tax 2017***

**The box plots show the quartile ranges for Band D Council Tax for English regions in 2017-18. The middle two quartiles are shown as boxes, the highest and lowest quartiles as lines or “whiskers”. There is a range of £1,200 between the highest and lowest values. Inner London is significantly shifted to the left (lower) part of the range compared to others, Outer London to a lesser degree. The South East contains amongst the highest levels of band D Tax but with a wide range.**



* 1. Whilst the explanations or narrative that might accompany this graph may vary, we suggest to the group that the mechanism of adjusting resource based on expected or nominal Council Tax values is something the new mechanism should recognise so long as Council Tax continues in its current form and without a revaluation.
  2. Our final point in this section is to show how the mechanism has been impacted by a combination of the settlement funding mechanism, and changes in Council Tax since 2013. As we have already mentioned, the value of the resource adjustment (and all other blocks within formula) has fallen as the total of settlement funding has fallen. The method by which this has been done, cutting RSG in proportion to baseline funding, means that the ratio of Resource to gross formula has stayed about the same[[4]](#footnote-4). The ratio of Resource adjustment to Council Tax has, however, dramatically reduced from an average of 84.8% to an average of 42.2% as the following table shows

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2017-18 Formula and Council Tax by Region | Gross formula allocations adjustment[[5]](#footnote-5)  £m | Council Tax support grant in formula £m | Gross resource adjustment  £m | Resource  / gross formula  % | Net  Council  Tax  £ m | Resource  / Council Tax  % |
| Shire districts | 1,083 | 87 | -539 | 49.8 | 1,350 | 39.9 |
| Shire Counties | 5,450 | 520 | -3,369 | 61.8 | 8,959 | 37.6 |
| Inner London | 1,771 | 118 | -680 | 38.4 | 930 | 73.1 |
| Outer London | 2,043 | 202 | -990 | 48.5 | 2,065 | 47.9 |
| Unitary | 4,386 | 428 | -2,035 | 46.4 | 4,975 | 40.9 |
| Metropolitan Districts | 4,906 | 497 | -1,751 | 35.7 | 3,932 | 44.5 |
| Total £m\_average % | **19,639** | **1,852** | **9,364** | **47.7** | **22,211** | **42.2** |

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* 1. *We suggest the group should identify and explain this issue to steering group and ministers and possibly identify a range of Resource Adjustment Values that more closely reflects the relationship to Council Tax established in 2013*
  2. A more detailed authority level illustration of the resource adjustment calculations for a Met district and a shire area are attached as Appendix A.
  3. **Is the current methodology fit for purpose?**

*We suggest that there is nothing fundamentally wrong with the apportionment basis but that the resource equalisation value needs to be lifted to reflect a consistent proportion of Council Tax income and hence increase Needs values.*

* 1. **How could the current methodology be improved?**

*We suggest that DCLG could model and share the impact of varying the extent to which Resource adjustment is used to increase Needs and Basic Amount.*

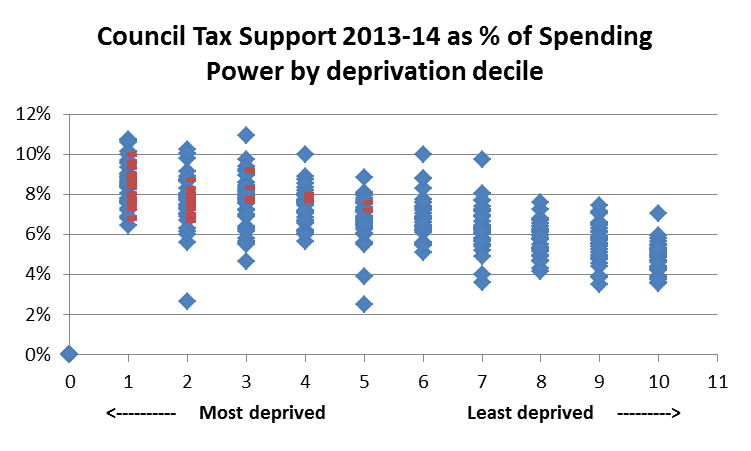
* 1. **What value should the resource adjustment be set at?**

*We suggest that the resource adjustment should be fixed relative to the size of total Council tax income (but apportioned by tax base)*

* 1. **If the move to a simpler formula results in the removal of tier level aggregations, how should a needs basis be adapted?**

*The tier level method could still be used to allocate basic funding but tier level resource adjustments need not be aggregated toge***ther**

1. **Reliefs and Support**
   1. Up to 2013, councils were reimbursed for the amount of Council Tax they had foregone under Council Tax Benefit rules. This reimbursement was treated as Council Tax income by authorities and amounted to an overall total of around £3,660 million in 2012-13.
   2. With the introduction of business rate retention in 2013-14 came the withdrawal of Council Tax Benefit. From this date authorities carried the responsibility for “Council Tax Support” (CTS), a locally devised scheme (within certain national parameters) to reduce Council Tax bills for low income residents.
   3. This was initially financed by a £3,295 million Government grant, representing 90% of the projected 2013 benefit cost. The grant was, however, rolled into formula grant in 2013-14 and each authority has thus suffered a reduction in Council Tax Support Grant each year in proportion to its reduction in Settlement Funding. Our last estimate of the value of CTS within settlement at 2017-18 (taking into account the inflationary increase in rates and the Government’s reductions in RSG) was £1,962 million, 60% of the 2013-14 rolled-in value. By 2019-20 our estimate of the value of CTS grant is £1,736 million, 53% of its 2013-14 rolled in value.
   4. It has been argued that some of the recent historic growth in Tax base (used by DCLG to project future growth) is in fact a consequence of some councils reducing their Council Tax support
   5. The proportions of CTS as a % of overall funding varies from one authority to another, as the proportions of dependent households vary. Again, there is a marked variation across the deprivation deciles with the least deprived authorities tending to have the lowest proportionate cost of CTS, as is shown in the following chart. SIGOMA authorities are highlighted by a red dash.



* 1. On the demand side, authorities have apparently been unable to match reductions in the grant with reductions in benefit. Latest Revenue estimate data for 2017-18 suggests that Council Tax Support is estimated to have cost a total £3,300-£3,400[[6]](#footnote-6) million, of which pensioners alone would be £1,500 million.
  2. The chart below shows the reported change in Council Tax Support between the 2013-14 DCLG estimate and 2017-18 Revenue Estimate. For about 183 of the 353 billing authorities the cost of Council Tax support has increased by **comparison to the 2013 grant value.** Across all deprivation deciles the percentage change varies between, on average, cuts of 20% and increases of 30%. No authority achieved a cut of 40% to match the reduction in grant within Settlement.



**The chart shows the reported change in Council Tax Support between the 2013-14 DCLG estimate and 2017-18 Revenue Estimate, corrected for return errors and omissions.**

The outlier in 5th most deprived is Breckland District.

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* 1. One of the key requirements of local support schemes is the protection of Pensioners. This means that although support can theoretically be reduced to zero for working age claimants, pension age taxpayers must be given the same support as they would have received under benefit rules. The reducing value of benefit within Settlement means that the total value could soon be adequate only to finance the total payable to pensioners.
  2. *Would group members support identification of a new baseline of Council Tax support within 2020 settlement based on other objective benefit claimant data (say un-employed working age and benefit claimants of retirement age) multiplied by a national centrally set amount per claimant? This could then be re-established as a rolled in grant within funding or amended at full value within the Resource Adjustment.*

1. **Settlement 2015 - further recognition of Council Tax Income**
   1. In recognition of the falling value of the Resource Adjustment, the 2015, 4 year Settlement incorporated Council Tax into the calculation of Revenue Support Grant for 2016-17 onwards, something not previously done.
   2. An illustration of the method, using the same two authority types, is attached in appendix B. In simple terms the calculation of reductions at authority level are made by applying tier % reductions to Settlement Funding value plus 2015-16 Council Tax Base rather than to Settlement Funding alone. The % reductions at tier level are still determined centrally by DCLG and so may not necessarily yield reductions that all would consider “fair” in future years.
   3. This change in methodology resulted in some very different RSG allocations and in some authorities having a negative RSG determination (not possible under the previous methodology) Negative RSG increases in size over the four year settlement and was in total: 2017-18 £2.27m, 2018-19 £22.82m, 2019-20 £152.88m.
   4. Following the 2015 settlement consultation, the 15 authorities with a negative RSG allocation in 2017-18 had their RSG reduced to nil rather than a negative allocation and DCLG created a transition grant of £150 million in 2016-17 and 2017-18 for 219, mainly district authorities, with the worst RSG impacts.
   5. **Should the new method of calculating RSG reduction continue beyond 2019-20?**

*Setting cuts relative to overall CT requirement takes no account of the varying band D levels set by authorities, as referred to above. If this method continues it would be better to set cuts by reference to an imputed CT requirement, that is by a “standard” CT amount, multiplied by tax base rather than on Council Tax requirement.*

*Subject to the above we are supportive of applying cuts at a level that takes into account the whole of resources available to authorities and would be interested in the views of other members.*

1. **Council Tax Linked to Adult Social Care**
   1. Since 2016-17, councils with responsibility for adult social services have had a “flexibility” to raise Council Tax by a further 2% above the 2% general referendum cap[[7]](#footnote-7). At the same time DCLG have introduced an additional Better Care fund for adult social care authorities, further enhanced for early years in the 2017 Budget. The amounts of grant and estimated additional Council Tax through the flexibility are:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2017-18  £m | 2018-19  £m | 2019-20  £m |
| Additional Better Care Grant | 1,115.0 | 1,499.0 | 1,837.0 |
| Potential Council Tax raised through ASC flexibility | 814.2 | 1,289.6 | 1,811.5 |

* 1. The amount of Council Tax that could be raised through Adult Social Care flexibility will vary depending upon the size of an authority’s Council Tax base and will bear no relationship to the cost of care. The additional Better Care funding allocations do, however, take into account the amount of funding that each authority could raise through the flexibility, so that the two funding streams combined should add to a distribution based on social care deprivation.
  2. **Should the social care Council Tax flexibility be combined into an overall cap (assuming a cap must remain)? In which case, should adult social care funding be rolled into settlement? Or,**
  3. **Should the social care Council Tax flexibility and Additional Better Care fund be ignored for Fair funding purposes, as long the Additional Better Care fund remains in force at the 2019-20 value.**

*Again, using CT requirement tends to favour authorities who are setting comparatively low band D. We suggest that an imputed level of Council Tax should be used to adjust Social care funding and that there should be regular updates to this figure.*

*On balance and subject to the above comment, our members support the principle of a social care precept so long as Additional Better Care Grant and its interaction with ASC precept continues.*

APPENDIX A

Resource adjustment in Settlement Funding Formula at 2013-14

The tables illustrate calculations for a single tier metropolitan authority, Sheffield, and a combination of upper and lower tier authorities making up Dorset County. In both cases the calculations are carried out at tier level but will roll up into one adjustment for the single tier authority.

In our examples it can be seen that Sheffield loses less Resource Equalisation amount (£22.9 million v £78.0 million) due to a lower tax base than Dorset whilst losing more in Basic Amount Resource (£103.2 million v £76.9 million) due to a higher population (though it should be remembered that the population ratio works to Sheffield’s advantage in the Needs part of the Basic Amount calculation). In summary the two adjustments are:

Resource Equalisation

The table illustrates that the main local variable is the Council Tax Base value, weighted by the authority tier proportions set by DCLG, though the allocation is also affected by the lowest baseline resource allocation:

Summary of Resource Equalisation Adjustment 2013-14. Illustration at authority level



Basic amount deduction is the product of population and lowest per head tier value

Basic Amount Resource Adjustment

The table illustrates that the main variable affecting the relative allocations is the local population

Summary of Basic Amount resource adjustment 2013-14. Illustration at authority level



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A more detailed analysis of the two data sets follows

Note the tier share percentages set by Government. DCLG will wish to alter these proportions if a similar model is used which may in turn lead them to reconsider the overall value of the resource adjustment. As Settlement Funding falls so does the value of the Resource adjustment within it.



Appendix B

Council Tax adjusted within Revenue Support Grant cuts

Illustration of Mechanism



1. Including police and fire allocations hence does not add back to our total [↑](#footnote-ref-1)
2. Net of Council Tax Support; Excluding police, fire and the GLA [↑](#footnote-ref-2)
3. i.e. Formula grant gross of resource: Needs block 13-14, needs element of Basic Amount 13-14 and grants rolled in at 2013 [↑](#footnote-ref-3)
4. Varying slightly as cuts in settlement did not impact equally on all authorities. [↑](#footnote-ref-4)
5. i.e. Formula grant gross of resource: Needs block 13-14, needs element of Basic Amount 13-14 and grants rolled in at 2013 [↑](#footnote-ref-5)
6. There are errors and omissions in the RA2017-18 return data which we have corrected or replaced with substitutes based last provided figures, where available, less average reduction rates. There are 4 authorities for which no data can be estimated and these have been left at zero, hence the data total is likely to be understated. [↑](#footnote-ref-6)
7. In 2016 this was further flexed to allow accelerated increases in earlier years subject to an overall cap of 6% over the 3 years to 2019-20 and a cap of 3% in any one year [↑](#footnote-ref-7)