



Title: **Steering Group**

Paper: A review of local authorities' relative needs and resources: December 2018 consultation on relative needs, resources and transitional arrangements summary of responses received from major representative groups

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## **POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY**

### **Introduction**

1. In December 2018 the Government published a consultation on relative needs, relative resources and transitional arrangements.<sup>1</sup> The consultation:
  - Proposed to simplify the assessment of local authorities' relative needs;
  - Considered the type of adjustment that will be made to an authority's relative needs assessment to take account of the relative resources available to them to fund local services; and
  - Proposed a set of principles that will be used to design potential transitional arrangements and examined how the baseline for the purposes of transition should be established.
2. This paper presents an overview of the responses received to the consultation from key representative bodies; analysis of individual responses from local authorities and other respondents is currently ongoing. The paper highlights areas of consensus and where views have been mixed.

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<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/764487/Review\\_of\\_Local\\_Authorities\\_Relative\\_Needs\\_and\\_Resources\\_consultation\\_document.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764487/Review_of_Local_Authorities_Relative_Needs_and_Resources_consultation_document.pdf)

## **Consultation on relative needs, resources and transitional arrangements**

### **Relative needs**

3. The consultation set out the Government's proposed approach to simplify the assessment of local authorities' relative needs, by introducing a simple, 'Foundation Formula' for upper and lower tier authorities, alongside several 'service-specific' formulas.
4. The consultation included the following proposed service specific formulas:
  - Upper Tier: Adult Social Care, Children's and Young People's Services, Highways Maintenance, Fire and Rescue Services, Public Health and Legacy Capital Finance.
  - Lower Tier: Flood Defence and Coastal Protection, and Legacy Capital Finance.
5. The consultation sought views or evidence not previously shared, relating to the proposed structure of the relative needs assessment.
6. The **majority of responses from representative groups indicated broad support** for the direction of the review's approach, with greater simplicity, but not at the expense of accuracy.
7. There were **widespread calls for the publication of more data, analysis and exemplification** to explain the basis of the proposals in the consultation paper and to 'sense check' the results.
8. There was a broad consensus from all key representative groups, excluding one, that **deprivation should be included as a cost driver in the Foundation Formula**, weighted by evidence. Some groups stated that 4% was not an insignificant additional explanatory power, particularly at an individual authority level.
9. A number of responses proposed specific changes to the structure of the relative need formulas including proposals for:
  - a separate **Homelessness** formula, or treatment outside the settlement;
  - a separate **flood formula for upper tier services** (as well as lower tier);
  - a **fixed costs** element in the needs **formulas**; and
  - a separate formula for Unaccompanied Asylum-Seeking Children or consideration in the Children and Young People's Services formula.
10. Some groups argued for additional cost drivers to be included in the Highways Maintenance formula recognising weather factors or heavier traffic flow (i.e. HGVs).

### *Adult Social Care and Children and Young People's Services*

11. There was support for separate Adult Social Care and Children and Young People's Services formulas and calls for further detail on the proposals be made available as soon as possible. The use of analysis at sub-council level for these formulas was welcomed by some groups as more robust for these service areas.
12. There were some concerns in relation to the new Adult Social Care formula regarding the age of legacy benefit and census data, and the use of specific cost drivers and their weightings, with calls for a detailed technical paper with further explanations.

### *Public Health*

13. There was consensus on the need for a specific formula if Public Health is incorporated into the 75% Business Rates Retention scheme. However, there were **mixed views on the use of the 2015 Advisory Committee on Resource Allocation (ACRA) new Public Health formula**. There was a call for more analysis to be done on the formula to confirm it is fit for purpose.

### *Population Projections*

14. There was broad support for the use of population projections, however one group questioned the Office for National Statistics methodology for calculating population projections, claiming that this underpredicted growth in fast growing areas and posed the question of the possible use of new Census data post-2021 to 'sense-check' the projections.

### *Fire and Rescue Services*

15. The consultation also set out three potential options for the measurement of need for **Fire and Rescue Services**. These included:
  - Development of a formula based on cost drivers with the greatest explanatory power for Fire and Rescue Services spending;
  - Update the existing Fire funding formula as far as possible; and
  - Development of a multi-level model using fire incident data as a proxy for relative risk.
16. The Government asked for the sector's views on the best approach to a Fire and Rescue Services funding formula. There was **broad consensus that updating the data within existing Fire formula where possible would be the preferred approach**. One group felt this represented the simplest and most sensible approach to adopt whilst thorough work is done to establish a longer-term

solution. Multi-level modelling was seen by many as a potential long-term option but required further work.

17. Several groups did not support a formula based on a reduced number of cost drivers and expressed concern at using an expenditure-based regression using only 45 data points.

#### *Concessionary Travel and Home to School Transport*

18. The Government proposed to include Concessionary Travel and Home to School Transport within the Foundation Formula, subject to the outcome of further analysis, and asked for views on the best approach to these two areas.

19. There were **very mixed views on the approach to Concessionary Travel and Home to School Transport**, and whether they were best suited to a service specific approach, or inclusion within the Foundation Formula.

20. Most respondents felt that the most appropriate cost driver for these services was not overall population size, and therefore some groups did not believe that for one or both of these areas a population-based approach was appropriate.

21. Other groups were willing to accept inclusion of one or both areas within the Foundation Formula if this achieved the review's aim of simplicity, and if rurality was appropriately accounted for within the Area Cost Adjustment.

#### *Area Cost Adjustment*

22. The consultation set out the Government's proposed approach to measuring the variance in costs between areas. The Government proposed to incorporate three factors:

- a **rates cost adjustment**, including rents, to reflect the variation between areas in the cost of using equivalent premises due to differences in local supply and demand factors;
- a **labour cost adjustment**, including accessibility, to reflect the fact that authorities will need to compete with other potential employers to secure and retain suitably skilled staff; and
- a **remoteness adjustment**, to account for variation in the cost of some inputs due to the size of local markets or isolation from major markets.

23. The Government asked for views on the proposed Area Cost Adjustment (ACA). There was some support for the new the Area Cost Adjustment and recognition of the principle of considering journey times as an area cost factor. There were calls for publication of more evidence and analysis to support this proposal with some scepticism in relation to the application of travel times.

24. There were some calls for inclusion of residential property prices as potential extra drivers of cost in the ACA for any formula that includes Homelessness.
25. The weighting of the ACA was highlighted as an important issue by most representative groups, and they asked for clarity on this as soon as possible. Some highlighted the need to avoid double counting of sparsity where service specific approaches contain this factor already, such as in the Public Health formula, or an updated fire formula.

## Relative resources

### Council Tax

26. The consultation set out proposed options for the treatment of local authorities' relative resources in the review. To reflect councils' varying ability to raise local resources, the Government asked for views on how to determine a measure of council tax income for the purposes of the relative resources adjustment.
27. In determining a measure of council tax resources, there are several factors which need to be accounted for, including:
- A measure of **council tax base**, including treatment of discounts, exemptions, premiums and local council tax support,
  - A measure of **council tax level**,
  - A measure of the **council tax collection rate**,
  - An approach to **council tax tier splits** in multi-tier areas.
  - It is also necessary to agree an **approach to council tax in successive years**.
28. The Consultation sought views on proposed approaches to these areas.

*Council Tax Base* – including a treatment of discounts, exemptions, premiums and local council tax support

29. The consultation sought views on how to measure discretionary and non-discretionary discounts, premiums and exemptions within the council tax base, and whether an assumptions-based approach should be taken to discretionary discounts.
30. The consultation also sought views on whether and how the Government should take account of the income forgone due to local council tax support for working age people.
31. All replying representative groups **agreed that the Government should continue to take account of non-discretionary council tax discounts and**

**exemptions and the income forgone due to the pensioner-age element of local council tax support in the measure of tax base.** They stated that councils should not bear the costs of national policy decisions.

32. There was **consensus around the need to use an assumptions-based approach to take account of the second homes discount, the empty homes discount and the empty homes premium in the measure of council tax base.** Some proposed a starting assumption of no discretionary discounts or premiums. Others indicated that the approach taken should not disrupt incentives for local housing policy by including the empty homes discount or exemption, or second homes discount.
33. There was a strong **consensus that working age LCTS should be accounted for in the resources adjustment.** There were different views on how to do this including taking full account of actual income forgone, assumptions-based approaches such as using minimum levels of support based on research, another assumption basis or using a formula based approach.
34. The **highest consensus was around a formula-based approach which captures demand for LCTS schemes for working-age households,** and not local policy decisions.

#### *Council Tax Level*

35. The Government stated that there were two possible methods for taking account of council tax level, using a notional or actual council tax level. The Government proposed to use a notional council tax level when making the relative resources adjustment, and asked for views on this, and on how to set the notional level.
36. There was **strong consensus around the use of a notional council tax level** in order that authorities are not rewarded or penalised for historic policy decisions; no representative body advocated the use of an actual measure of council tax level.
37. There were mixed views **on where to set the notional council tax level.** One group suggested full equalisation, adjusted for forecast change in council tax income. Some others strongly preferred partial equalisation, allowing authorities to retain some of the growth in the tax base, stating that full equalisation would remove incentives to invest in and grow the local tax base and reduce turbulence in the funding system. Two groups advocated for a notional level set around the average England council tax level (equivalent to full equalisation) and argued that the ASC precept should not be included in the calculation.

### *Collection Rate*

38. The consultation also sought views on what collection rate should be used. It considered using actual collection rates, or a uniform, national collection rate.
39. There was **consensus that actual council tax collection rates should not be used**, as this would penalise authorities which are effective at collecting council tax. Many groups felt that authorities should not be rewarded for poor collection rates.
40. Some groups supported using a national average collection rate. Other groups noted that using average England levels may disadvantage councils who cannot achieve these rates due to factors beyond their control.
41. It was suggested by these groups that a notional approach to collection rates could be achieved by statistical analysis of the factors driving differences in non-collection rates, giving bespoke rates for each council.

### *Tier Splits*

42. The consultation asked for views on the split of the council tax in multi-tier areas, considering using both actual tier splits, or using a uniform average ratio across England.
43. Several groups did not express a preference for this question. Of those who did, the majority **agreed with the use of average shares** as this would not penalise authorities for factors outside their control. One group indicated that using actual council tax splits in each area would add unnecessary complexity.
44. It was noted that if actual council tax income was used as the basis for the split, this should only include adult social care precept income if the improved Better Care Fund is rolled into the relative needs assessment; it should not make any adjustment related to take-up of the council tax freeze grant; and should exclude parish council tax precepts and special levies, such as internal drainage board levies. Two groups agreed that council tax income from the Adult Social Care precept should be excluded, however two others argued that this should be included as it is 'real income' for counties in two-tier areas.

### *Council tax in successive years*

45. The Consultation then sought views on whether a single measure of council tax resource should be fixed over the period between resets for the purposes of a resource adjustment in multi-year settlement funding allocations.

46. **Most representative groups agreed with this approach.** One group disagreed with this approach and stated that forecast council tax income should be considered, which would be consistent with other areas of the review, such as the use of population projections. It was mentioned that as council tax rates increase over time areas with large tax bases will benefit more.

### Sales, Fees and Charges

47. The Government sought views on the treatment of sales, fees and charges within the review. The consultation set out the practical challenges in taking a direct account of sales, fees and charges income through the resources adjustment and said that the Government was broadly minded not to do so. However, the consultation said that there may be a case for taking specific service areas into account which have generated a significant surplus income, such as parking.

48. The Consultation sought views on whether sales, fees and charges should be excluded, and if it were minded to do so, how the Government should take account of parking income.

49. **Most representative groups agreed that surplus sales, fees and charges should not be taken into account.** It was highlighted that this income is often constrained by legislation and ringfencing. Only one representative group disagreed, and argued that excessive surplus sales, fees and charges income should be considered in a similar manner to the business rates levy.

50. Several groups stated that taking this income into account on an 'actuals' basis would penalise councils that have been working hard to mitigate funding reductions. It was also noted that the level of data available is insufficient to assess the capacity to generate such income and to assess where such income is a result of policy decisions, making reliable and objective adjustments on a 'notional' basis impossible.

51. There were **mixed views on whether surplus parking income should be taken into account.** Some argued that there was a strong case for doing so due to the size and distribution of the surplus income. Suggestions for how to take surplus parking income into account included a formula reflecting the ability of local authorities to generate income from parking or taking into account surplus income over a threshold amount.

52. Several groups did not believe that surplus parking income should be considered. They highlighted the insufficient level of data available to assess councils' capacity to generate such income. Some also stated that it would be difficult to assess the extent that income is a result of policy decisions. The reasoning



behind considering surplus parking income over and above other sources of income from sales, fees and charges was questioned, and it was highlighted that this income is not meant to deliver a surplus, that it is ringfenced, and that inclusion would lead to increased complexity in the system.

### Transitional Arrangements

53. Calculating local authorities' relative needs and resources using new relative needs formulas and updated data is likely to result in changes to the level of funding individual councils receive. Once new funding baselines have been established, the Government intends to introduce transitional arrangements that will determine the basis on which authorities reach their new funding allocations.
54. The consultation set out four principles on which the Government proposed to design future transitional arrangements, including stability, transparency, time-limited and flexibility. The consultation sought views on whether the sector agreed with these principles and whether other principles should be included.
55. The consultation also stated that there are a number of options for establishing the starting baseline for transition, and asked for views on how this should be measured.
56. There was **broad agreement on the transition principles**. Some stated that transition may need to be flexible so different classes of authority can be treated differently. Several groups insisted that transitional arrangements should unwind over time, and it was highlighted that damping remains in the current system from the 2013-14 allocations and before.
57. Two groups called for no authority to be financially worse off as a result of the review. Some also called for additional funding for transition, whilst others called for low-council tax councils to be given flexible referendum principles to allow themselves to fund the difference between their current and new funding positions.
58. There were **differing views on the baseline for transition**, with some suggesting including business rates growth and New Homes Bonus and other grants in the baseline and two groups suggesting different treatment for 'negative RSG'.

### Public Sector Equalities Duty

59. The consultation asked for views on any potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic.

60. Few respondents mentioned persons with protected characteristics that may be affected by the proposals at this stage, however the protected characteristics mentioned were **age, disability and ethnic minority groups**.

Other common themes

61. Many representative groups highlighted the lack of certainty from 2020-21 onwards and asked for exemplifications to be provided as soon as possible.

62. A key theme of responses from representative groups was the need to secure a sufficient level of local government funding through the 2019 Spending Review to support the future sustainability of local government.

63. Several groups advocated for an increase in funding to ensure 'no losers' as a result of the proposed reforms.

64. The need for 'sense-checking' of the methodology was reiterated, with suggestions that developments are informed by the use of independent technical statistical expertise that can provide robust challenge as work progresses. It also asked that the impacts from wider local government policies are considered including policies confirmed in the spending review.