

**(NR TWG 15/02/17) Minutes – Meeting of Technical Working Group on Needs & Redistribution**

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

Date: **Wednesday 15 February 2017**

Venue**: Southwark Council, Tooley Street SE1 2QH**

# Attendance

* 1. An attendance list is attached as Annex A to this note.

# Welcome and Introductions

* 1. After an initial round of introductions, the Chair welcomed attendees to the meeting.
  2. DCLG confirmed that the **meeting notes from January’s meeting will be circulated shortly – Action.**

1. **Draft Call for Evidence response** – Trefor Henman (DCLG)
   1. DCLG provided an overview of the draft Call for Evidence response, which had been circulated as a paper to the group. The intention is to publish this alongside a forthcoming technical consultation document on needs and redistribution.
   2. A broader discussion about the Fair Funding Review and approach to consultation took place. DCLG confirmed that the aim was to implement the new needs baseline alongside the introduction of 100% business rate retention in 2019/20.
   3. Duncan Whitfield reflected on the challenging timetable that 2019/20 represents, and suggested that an alternative option would be to delay implementation for an additional year (to 2020/21) in order to deliver a more comprehensive Review as opposed to swift implementation with potentially high levels of transitional support.
   4. DCLG confirmed that there was a commitment to the 2019/20 timetable, and that the group had an opportunity to help define the scale and nature of any transitional arrangements put in place.
   5. Alan Cross noted that whilst there was a need for simplicity in the formula, it requires enough detail to make a fair analysis of the relative needs of councils.
   6. Paul Woods pointed out what he perceived to be a lack of understanding around regression techniques, given that there is no direct correlation between past funding levels and the amount that authorities actually get. He also stated that regression can be used as a powerful technique to determine which are the most appropriate indicators to use in a needs calculation, but that the technique needs to be explained in a very clear way in order to aid understanding.
   7. DCLG confirmed that they were open-minded to any potential alternatives to a regression-based technique that could be demonstrated to be more effective. However at this stage it was necessary to keep all options open, including the possibility of building on existing regression techniques. These issues will be explored further through consultation and with input from the ALATs sub-group.
   8. Paul Woods suggested that it may be possible to simplify the presentation of settlement data; for example by simplifying the presentation of settlement data for Shire Districts to cover only the relevant services that they provide, rather than also include large amounts of additional information relevant to upper tier authorities in the information that they receive. This would simplify the settlement presentation for a large number of authorities.
   9. Geoff Winterbottom felt that whilst it may be possible to come up with four or five indicators related to cost drivers; it was unlikely a working model could be developed on that basis for all authorities given the variation between them. He noted that indicators do show a strong correlation with where spend is, but that constraints include what data is available and independent; and the standard of the data.
   10. Duncan Whitfield suggested that in the consultation document there is a move towards the use of more closed, rather than open-ended questions.
2. **Update of work of the ALATs subgroup** – Duncan Whitfield and Sean Pearce
   1. Duncan Whitfield delivered an update on the work of the ALATs subgroup. They are working towards a less complex model with a smaller set of cost drivers and were now at a stage where they wanted to start data modelling, and had thus engaged with LG Futures.
   2. Duncan suggested that it would be better to exemplify a range of options now, and that this can be embellished further down the line. Duncan also stated ALATs’ concern over starting the new model in 2019/20, and that any ultimate model they produce may be quite different if started at a later time.
   3. ALATs will be meeting the IFS to discuss their work with CIPFA, and were recently interviewed by the NAO as a subgroup.
   4. Duncan mentioned a recent meeting that had taken place with DCLG in which he outlined the need for transitional arrangements, setting out defined timelines in which the endpoint is reached, and ALATs preference for the removal of ‘damping’ as a transitional arrangement. DCLG acknowledged that these suggestions were noted, and that transitional arrangements were on the agenda for discussion in this meeting.
   5. Duncan discussed the possibility of a medium term settlement, on a rolling 3-5 year basis. He also noted the need for a forward looking approach; looking to what extent we can reflect future data in the formulae.
   6. Sean Pearce provided a further update on ALATs work. They have engaged with SIGOMA, who are providing insight into poverty and deprivation. The goal of this work is to create a model in which weighting can be included in the model after the values have been added. This will include a top-down analysis, starting from the top and adding extra options where they are found to add value.
   7. Sean stated that in terms of design principles for the ALATs model, they were now turning their attention to the issue of resources, including what this may mean for two tier authorities and whether there was an opportunity to weave in what happens with fire authorities, etc.
   8. DCLG confirmed that they were keen to be kept up to date in relation to the ALAT’s work and offered to meet with them and LG Futures to discuss this.
   9. Sean confirmed that ALATs had secured some funding for their analysis programme and were keen to be made aware of any other potential funding streams to expand upon this.
   10. Sean stated that in terms of design principles, ALATs were keen to clarify the totality of resources for existing responsibilities and that at present ALATs were assuming the use of a ‘top slice’ in relation to capital financing; alternative views or approaches were encouraged from the group
3. **Update on the consultation document on needs and redistribution** – Ian Rose, DCLG
   1. DCLG provided a progress update on the development of the consultation document on needs and redistribution, which officials expected to be published shortly. DCLG explained the overall aim to move towards a simpler and more transparent formula, and stated that they had listened to ALATs’ desire to start with key cost drivers, which will be reflected in the consultation.
4. **DCLG paper - The approach to resources under 100% business rate retention – NR TWG 16/31**
   1. DCLG presented the paper and asked the group for their views on the treatment of resources under 100% Business Rates Retention.
   2. Paul Woods felt that the paper was helpful but that it did not fully reflect the changes that took place in relation to council tax equalisation in 2013/14. Paul commented that analysis by SIGOMA showed that this had a significant impact on spending power, but that this is hidden and there is a need for greater transparency.
   3. Alan Cross mentioned the fact that local policy decisions (discounts, council tax support) now made the available tax base data less objective.
   4. Duncan Whitfield commented on the difficulty of defining the purpose of council tax in 2017.
   5. DCLG acknowledged the points raised and confirmed that the wider redesign of the council tax system is not in scope for the Review. There is a need to clarify what council tax is doing within the wider funding system and whether it was possible to divorce this from local policy decisions.
   6. Sean Pearce asked how local data could be divorced from standardised council tax levels. He also commented that it would be hard to say what the standardised tax base would be now, and asked if this is an unavoidable problem.
   7. DCLG explained that there is a lack of national data available in relation to local council tax schemes at a local authority level, which will make it difficult to standardise tax bases without making high level assumptions.

**Action - DCLG will provide a paper at a future TWG meeting to set out how the council tax base works, and the implications of local council tax support schemes on LA tax bases.**

**This paper will also provide an overview of the council tax data currently available in relation both in relation to the tax base, council tax support schemes and tax levels.**

* 1. Alan Cross mentioned there are a lot of different aspects to consider in different areas including second homes charges and students, which affects many authorities’ ability to raise council tax.
  2. Within the context of relative resources, DCLG explained that there is currently a limited level of data available. DCLG has data in relation to net revenue expenditure which nets off the totality of all sales, fees and charges, as well as all other income including any inter-authority transfers. DCLG asked if there was a possibility that the TWG could look to fill this gap.
  3. Sean Pearce mentioned that there should be a balance between incentivising LAs to raise income without penalising authorities.
  4. Duncan Whitfield explained that the current ALATs view was that parking charges was a relevant area for further exploration; but that other revenue streams were either so small, revenue neutral, or lacked consistent data so as to render them unworthy of further consideration in this context.
  5. The group agreed to look at Business Rates income growth at a later meeting once the relevant statistics are published later in 2017.
  6. DCLG asked for the group to suggest (now or outside of the meeting) some potential principles that can be used to help define what we are trying to achieve by taking resources into account, to help define the scope of this forthcoming work stream and to define the requirements of any future analysis.

**Action: ALATs will lead on arranging a sub-group workshop in relation to resources that will look at establishing some principles to shape this work, and scope what further work / analysis they feel is required. Duncan asked for any volunteers that were interested in attending to express an interest**

**Action: The ALATs resources group will ensure that parking is factored into their resources sub-group workshop and will form a view around the type and nature of any additional data sets that they feel are necessary going forwards.**

**Action: DCLG will provide a summary of the revenue / income data that is currently available through the RO forms**

1. **DCLG paper - Discussion paper regarding transitional arrangements under 100% business rate retention – NR TWG 16/32**
   1. DCLG presented a paper entitled ‘Discussion paper regarding transitional arrangements under 100% business rate retention.’ DCLG asked the group for their views on what the transitional arrangements could look like for the implementation of the 100% business rates retention scheme in 2019/20.
   2. The consensus of the group was that transitional arrangements would be welcomed, however that this must include a full transition to the end point, and final allocations achieved before the first reset of the system.
   3. Geoff Winterbottom mentioned that it is important to look at systems design, as LAs could potentially receive transitional funding from baseline changes in addition to retention of the growth on business rates.
   4. Paul Woods pointed out the importance that any transitional arrangements are effective and end at an agreed time.
   5. Sean Pearce agreed that there needs to be a defined end point, and described how authorities can be locked in with less resource from previous transitional arrangements, and that this should be taken into account in future calculations. He felt that authorities are generally not in favour of damping, and asked whether it would instead be a better idea to take a top slice to fund transitional arrangements, instead of building transitional measures directly into the formula.
   6. Geoff Winterbottom asked at what level of core spending power transitional measures would take effect. Aiva pointed out that there would need to be a new definition of spending power for 100% business rates retention from 2019/20 onwards.
   7. Alan Cross pointed out some of the options that may be available around transitional arrangements. These included applying a blanket 5-year transition to all LAs, or to transition all LAs close to target allocation at once and transition any outliers over a longer period.
   8. Alan Cross felt that banded damping was not efficient, and that taking out a percentage of funding each year may not be feasible.
   9. Paul Woods felt that looking at the percentage change in spending power over a time (e.g. 10%) could be an important consideration, and that viability of any arrangements depends upon the extent of any changes.
   10. Duncan Whitfield felt that previous transitional arrangements were a product of the inherent complexity of the LGF system and new policy at the time; the aim should therefore be that transitional arrangements in the future should be clearer. There was also an important distinction to be made between the initial transition to the new 100% retention system in 2019/20, and then any future transition that takes place within the new system thereafter at reset. Duncan felt that the principles of transition would be particularly subject to the timeline and quantum of the new scheme.
   11. DCLG responded that whilst many aspects of the scheme would be subject to ministerial decisions, this was an opportunity for the group to express their views as a key stakeholder within the programme.
   12. Sean Pearce made the point that even if transition was heavily damped in the first year, it could ultimately enable a quicker overall implementation date, as well as offer more long-term certainty to LAs around their funding position.
   13. Similarly to the resources discussion, DCLG asked for the group to suggest (now or outside of the meeting) some potential principles that could be used to define what the group want to achieve through transitional arrangements and help define the scope of this forthcoming work stream.

**Action: ALATs will take this forward through their sub-group and develop some potential principles around transitional arrangements for further consideration by the group**

1. **Any other Business**
   1. Martin Mitchell made the point that population change would be an important factor in the new formula methodology. DCLG responded that this was subject to further consultation and analysis, but that some considerations would include how ONS forecasts could be used, and how to approach any variance from these.
   2. A date for the next TWG meeting is not yet confirmed, but should be after the next ALATs sub-group on 3rd March. The next meeting will include a discussion on council tax.

**Action: DCLG will arrange dates for subsequent TWG meetings**

Annex A

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| **Attendee** | **Organisation** |
| Aivaras Statkevičius (Chair) | Local Government Association |
| Stuart Hoggan | DCLG |
| Ian Rose | DCLG |
| Trefor Henman | DCLG |
| Emily Gascoigne | DCLG |
| Duncan Cook | DCLG |
| Martin Mitchell | Greater London Authority |
| Geoff Winterbottom | SIGOMA |
| John Bray | London Councils |
| Paul Woods | North East |
| Dave Shipton | County Councils Network |
| Alan Cross | Society of Unitary Treasurers |
| Sally Marshall (phone) | District Councils Network |
| Sean Pearce | Society of County Treasurers |
| Duncan Whitfield | Society of London Treasurers |
| Graham Soulsby | East Midlands |
| Carla-Maria Heath | IRRV |
| David Northey (phone) | South West |