



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

Paper: NR TWG 16/31 Discussion paper regarding the approach to resources under 100% business rate retention by the Department for Communities and Local Government

Date: 15 February 2017

Venue: **Southwark Council - 160 Tooley Street, SE1 2QH**

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

- 1) To date the technical working group has mainly focussed on the cost drivers and the assessment of relative need for local government services. This strand of work has fed directly into the forthcoming Fair Funding Review technical consultation, which will focus in more detail on these aspects of the needs assessment.
- 2) With the wider technical consultation due to be published shortly, we would like to use this meeting as an opportunity for the working group to focus on two other key policy areas that may significantly impact on the outcomes of a new needs assessment methodology; namely:
  - the treatment of resources available to local authorities, and
  - transitional arrangements.
- 3) As an initial step today, we would like to encourage a discussion across the group on these policy areas and in the process begin to define the programme of work and analysis that will be progressed in the coming months.
- 4) This paper focusses on the treatment of resources. A diverse range of views regarding this subject were expressed by local government during the Fair Funding Review call for evidence in summer 2016, a summary of which has been provided to the group under separate cover. The responses discussed how different income streams available to councils, along with levels of growth, could factor within a relative needs assessment and the redistribution of 100% business rates. It is clear that these questions are a primary concern for local government.

- 5) To help support today's discussion and by way of background information, the annex to this paper provides a short overview of how resources were taken into account within past and current funding methodologies.
- 6) In addition, we would welcome the group's feedback on the proposed areas of priority focus (set out below), which may form the basis of future technical working group meetings. In particular, we would like to establish:
- **Whether these are the most appropriate areas of focus,**
  - **Whether any of these areas are of a higher priority, and if so how these should be prioritised,**
  - **Which group members may be best placed to provide relevant input to each area,**
  - **Timescales,**
  - **Our next steps,**
  - **Others?**

<b>Proposed areas of priority focus for considering resources</b>	
1	Develop policy options for how council tax may be included within a future funding methodology and associated implications
2	Develop policy options for how growth in council tax may be considered and how this relates to system resets?
3	Potential interaction and implications of resources with other grants and/or funding streams
4	The behaviours / incentives that may potentially be encouraged through the relative resources assessment
5	An understanding of how local government has moved to commercialise specific services and the legal framework relating to other fees and charges

## **ANNEX – OVERVIEW OF RELATIVE RESOURCES AND LOCAL GOVERNMENT FUNDING**

<b>Name</b>	<b>Description</b>	<b>The Approach to measuring resources</b>
<b>Standard Spending Assessments (SSA)</b> (1990/91 to 2003/04)	<p>A formula based approach was used to calculate local authorities' funding requirements for an annual Local Government Finance Settlement. The formulae within SSAs used a mixture of analytical techniques and in some areas included a level of Ministerial judgement. A council's Revenue Support Grant (RSG) was given as its SSA, minus a measure of income for council tax and redistributed National Non-Domestic Rates (i.e. business rates).</p> <p>If a council's SSA indicated that it had high spending needs relative to the size of its population but had a low taxbase, it would have received a higher than average amount of government grant for an authority of that size.</p>	<p>SSA took account of the fact that potential council tax income varied between local authorities because of the size and value of the local housing stock (the "taxbase").</p> <p>SSA ignored variations in the level of council tax set by different authorities and variations in the collection rate. The SSA council tax adjustment (known as "equalisation") was based on the amount that different authorities would collect if they all set the same level of council tax and all succeeded in collecting 100 per cent of the tax due to them.</p>
<b>Formula Spending Shares (FSS)</b> (2003/04 to 2006/07)	<p>Based on formulae that included information on population, social structure and other characteristics of each local authority. Separate formulae were developed for major service areas.</p> <p>This basic methodology could be modified by either "resource equalisation" or "floors and ceilings".</p>	<p>The FSS model made a more explicit link between the relative need and resource aspect of determining authorities' funding allocations than the SSA model.</p> <p>Resource equalisation was part of the national calculation for distributing grant. The government estimated an assumed national level of council tax; this was not the actual amount of council tax an authority would raise. Instead it was an assumed level for the purposes of running and calculating the FSS formula.</p> <p>The broad effect was that if every authority set its budget at the level of FSS, the council tax levied would be the same for all properties in the same valuation band i.e. the assumed national council tax level.</p>

Name	Description	The Approach to measuring resources
<b>The '4-block' model (2006/07 to 2013/14)</b>	<p>The 4-block model was introduced at a time when school funding in the Local Government Finance Settlement was transferred to the Dedicated Schools Grant.</p> <p>The 4-blocks within the model were:</p> <ul style="list-style-type: none"> <li>• Block 1) The relative needs amount</li> <li>• Block 2) The relative resource amount</li> <li>• Block 3) The central allocation</li> <li>• Block 4) Floor damping</li> </ul> <p>The relative resource amount acted as a negative grant to reduce a council's funding and take into account its ability to raise funds locally through council tax. The block recognised the differences in the amount of local income which individual councils had the potential to raise by looking at authorities' council tax base data (a measure of the number of properties equivalent to Band D for council tax in an area).</p> <p>The relative resource amount did not achieve full resource equalisation under this model. The overall size of this block was set according to Ministerial judgment; for instance in 2007/08 the relative resource block control total was 24.57% of formula grant and in 2011/12 it was 26.6%.</p>	<p>The four-block model did not contain notional council tax figures; instead Tax base data was used to establish a minimum potential level of local income for each local authority. Negative Relative Resource Amounts were then generated above the minimum, relative to council tax base per head. To do this fairly, the Relative Resource Amount was applied to separate groups of authorities depending on the services they provided. This approach differed from the calculation of assumed council tax income used in the previous system.</p> <p>Separately each service group had its own "Share of Taxbase" allocated to it; a higher Share of Taxbase resulted in a lower share of Formula Grant for an authority. For each service group (for each relevant authority), the Share of Taxbase was multiplied by the authority's Taxbase, and then divided by the resident population. This gave a Share of Taxbase per head for an authority's service group. The minimum such value for all authorities in the service group was then subtracted from each authority's result so as to obtain the "Amount Required to Reach Threshold".</p> <p>In some instances authorities may have found themselves in more than one group, in which case calculations were performed for each of the four groupings. Where a grouping was not relevant for an authority, rather than being given a null value (which would affect other authorities' allocations), it was not included in the calculations.</p> <p>The method used to obtain the Relative Resource Allocation was similar to that employed in calculating the Relative Needs Amount. For each authority falling within more than one grouping, these "Amounts Required to Reach Threshold" per head were summed together, and then multiplied by the authority's projected population. The Relative Resource Amount for an authority was proportional to this figure.</p>

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<b>50% Business rates retention</b> (2013/14 to 2016/17)	<p>Authorities' initial funding was calculated using the 4-block model methodology, with the total amount split between an element to be funded from business rates and an amount from RSG.</p> <p>Because councils' underlying levels of 'need' and 'resource' were not considered in the funding allocations after 2013/14, councils that saw growth in their business rates base benefited from the additional income that this has generated.</p>	<p>Funding was largely based on the 2012/13 formula grant methodology. Formula funding allocated funding in relation to estimates of local resources such as council tax, whereby the actual council tax levels set across the country were averaged and multiplied by each local authority's council tax base.</p> <p>In 2014/15 the allocation of Revenue Support Grant to local authorities was calculated by scaling the 2013/14 allocations, whereby the calculation of council tax income that year (using 2012/13 data) was fixed until the end of Parliament. This meant growth in council tax bases during that period were not factored into the annual equalisation of RSG, meaning councils could potentially benefit from growth.</p>
<b>Settlement Core Funding methodology</b> (2016/17 onwards)	<p>The first of the four year multi-year settlement was introduced in 2016/17, in which RSG was distributed using a new 'settlement core funding methodology'.</p>	<p>The reduction to RSG for individual local authorities was done in a way that ensured councils delivering the same set of services received the same percentage change in settlement core funding for these services. Taking council tax into account when calculating this adjustment represented a significant change in government policy.</p> <p>This new methodology factored the actual council tax requirement for each area. The council tax requirement is the amount that a council needs to raise from council tax to fund its budget after accounting for income from other sources (equivalent to a council's Band D council tax multiplied by its council tax base).</p> <p>The council tax requirement (excluding parish precepts) was calculated using council tax figures for 2015/16 and is fixed for the duration of the parliament so as to continue to provide an incentive to pursue housing growth in their area, and so increase their council tax base.</p>