



Title: **Needs and redistribution technical working group (12:00-15:00)**

Date: **Thursday 16th November 2017**

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

1. Introductions

1.1. A full attendance list is attached as an Annex to this note. IT issues meant that dial-in facilities were unavailable for this meeting.

2. Actions and matters arising from previous meeting

2.1. The [minutes from September's TWG meeting](#) were agreed.

2.2. Stuart Hoggan (chair) reminded the group there was no specific deadline for meeting participants or wider networks to provide written responses to any of the discussion papers presented at these meetings.

3. Programme update - DCLG

3.1. DCLG presented a programme update:

i) Children's Services research and data collection project

3.2. A provider had been appointed for this contract and DCLG would confirm this to the group by email shortly. DCLG confirmed an engagement strategy will be implemented that will include working with volunteer authorities to collect data at sub-authority level. Representations have been received from some authorities, and a shortlist of volunteers will be finalised by the provider, with input from the LGA and ADCS.

➤ **Action 1): DCLG to confirm appointed provider by email.**

ii) Forward look on the TWG meetings

3.3. DCLG confirmed the forward plan for future meetings, with January's meeting focussing on relative needs.

iii) Planned technical consultation on relative need

3.4. DCLG confirmed plans to publish before the end of the year.

iv) Other matters

3.5. Alan Cross said he had attended the recent systems design working group where a meeting forward plan was discussed. Alan encouraged members of this group to familiarise themselves with the forward plan as transitional arrangements were due to be discussed and he felt it was important for work across the groups to be aligned. DCLG thanked Alan and confirmed that within the department, DCLG policy and analytical leads would be working to ensure a coherent approach.

3.6. Aiva reminded members about the LGA away day on 27 November, which was open to all members. Some attendees confirmed that they had not received an invitation to the away day.

➤ **Action 2): Aiva will check that invitations for the LGA away day have been issued to all members.**

3.7. Paul Woods said that he would like to have time to prepare ahead of any detailed discussion on Adult Social Care (ASC). DCLG confirmed that ASC would be examined at a high-level in January as part of the overview of analytical options, and that this could be looked at in more detail at a later meeting.

➤ **Action 3): DCLG will provide a refreshed working group forward plan at the next meeting.**

**4. Relative resources – approach to council tax (NR TWG 17-08) – DCLG
Council Tax Paper (NR TWG 17-09) - SIGOMA
Discussion paper regarding the approach to Local Council Tax Support (NR TWG 17-10) - DCLG**

4.1. DCLG [presented a paper](#) on relative resources which discussed the implications of different approaches to accounting for council tax in a relative resources adjustment. A brief overview was given of three possible approaches:

- i) Taking no account of council tax,
- ii) Accounting for council tax on a notional basis, and
- iii) Accounting for actual council tax raised.

DCLG presented illustrative scenarios for each option, using two differing notional possibilities for option ii. The interactions between tax base, need and deprivation were explored. DCLG then set out the next steps for accounting for council tax, including further investigation of other tax base discounts, interactions with reset periods, further analysis on notional council tax levels and more work on sales, fees and charges, and other commercial income.

4.2. Paul Woods highlighted that variation in council tax levels across the country exists for a number of reasons. As a result he saw the advantages of resource equalisation using a notional view of council tax rather than actual council tax. In this way, residents who pay a higher council tax would not see this equalised away.

4.3. Duncan Whitfield stated that it remained challenging to discuss relative resources within the group, and explain the purpose of council tax to the wider world, when it remained unclear exactly what council tax is for. DCLG acknowledged this point but said that within the parameters of the review we will need to identify the best possible approach based on the current position.

4.4. Alan Cross highlighted that a disadvantage of using actual council tax levels is that authorities would have greater scope to directly influence the level of business rates they are able to retain; a local authority might decide to set low council tax in anticipation of this revenue instead being met through increased top-ups or reduced tariffs.

4.5. Nikki Bishop mentioned that the incentive to grow tax bases should be kept in mind,

and that taking full account of council tax levels could act as a disincentive.

- 4.6. The group discussed the potential incentive effects of taking a notional approach, and whether particular approaches may incentivise some authorities to increase their council tax. Paul Woods felt that this wasn't necessarily the case as authorities with relatively low council tax levels would still have discretion over this decision and that there are a number of factors that may influence this decision locally.
- 4.7. Nikki Bishop mentioned that referendum principles limited the ability of authorities to move from an outlier position. Geoff Winterbottom pointed out that a notional approach wouldn't necessarily mean that council tax levels have to actually rise to the notional level. Alan Cross commented that many of the outlier authorities are where they are as a result of decisions made between 1990 and 2000. Paul Woods pointed out that it was possible for authorities to move from an outlier position over time and that using actual council tax levels could potentially distort the system.
- 4.8. Nikki Bishop commented that the nature of local government meant that past decisions on council tax levels may have been made under different political leadership. On this basis she felt using actual council tax levels might provide the fairest basis on which to fully address need.
- 4.9. Paul Woods questioned the fairness of using actual council tax levels and described a scenario where resources could be taken away from an authority which had previously increased council tax as a result of past service pressures. Nikki Bishop queried the fairness of a converse scenario, where under a notional council tax approach an authority may be worse off if it had low council tax levels because it had previously frozen council tax levels and received a freeze grant.
- 4.10. DCLG said that there was the potential to adjust the approach to resources, or make specific adjustments, in order to take account of factors, such as the freeze grant that was mentioned.
- 4.11. Geoff Winterbottom asked DCLG whether the aim was to have a single resources adjustment in future, rather than separate adjustments for RSG and retained business rates. DCLG confirmed that this was the case.
- 4.12. Paul Woods suggested that there would be an advantage in looking at the wider system afresh and challenging whether past decisions were still fair, such as basing precepts on percentage changes rather than cash amounts. He asked whether in future it would be possible to illustrate the scenarios using actual authorities. DCLG replied that this could be done, but that any data would need to be anonymous at this stage.
- 4.13. Graham Soulsby commented that whilst the extreme examples provided were illustrative, he felt that the group should take account of the political context in which ministers would be making decisions. If a realistic outcome for the review was to use some measure of notional council tax then he felt that the group should focus on narrowing down realistic examples. DCLG agreed and clarified that the purpose of the illustrations was to explore the dynamics of the system and draw out issues before moving on to feasible options.
- 4.14. Nikki Bishop said that whilst a notional approach may be fairer for individual tax payers

in areas with high council tax bills, she was concerned that for an authority with council tax levels below the average there was a risk they would not have enough funding to meet their needs.

4.15. Dan Bates commented that he agreed with using a notional approach, but that as actuals were used in the Settlement Core Funding adjustment from 2016-17, if the methodology returns to using a notional amount, some authorities would need support to transition back to a notional approach. DCLG agreed that this would need to be factored in to any future transitional arrangements.

4.16. Alan Cross asked whether there could be some flexibility around referendum principles, particularly for authorities with low council tax. Nikki Bishop pointed out that referendum principles were not the only constraint on council tax rises and that local politicians would be held accountable by residents for significant increases.

4.17. Nick Everleigh felt some areas where council tax has been kept low have historically relied on discretionary income, which puts them at particular risk during a recessionary period.

4.18. Paul Woods called for a principled approach to the new system and on the basis that redistribution takes account of differences in business rates, he felt that a similar approach could be taken to account for differences in the council tax base.

4.19. The chair re-summarised the consensus from the initial council tax presentation discussion as:

- Resources should be taken into account.
- The majority view was that this should be based on notional values with scope for individual corrections, to take account of actual values, past circumstances and any other relevant factors

4.20. Nick Everleigh asked whether future modelling could be done around districts as well.

➤ **Action 4): DCLG will consider modelling the effects of these scenarios on lower-tier authorities**

4.21. Geoff Winterbottom introduced [SIGOMA's paper on council tax](#).

4.22. Having previously discussed potential approaches to adjusting settlement allocations to account for the level of council tax foregone through LCTS schemes, DCLG introduced a high level paper on [Local Council Tax Support \(LCTS\)](#).

4.23. Geoff Winterbottom referred to the chart in paragraph 2.7 of the SIGOMA paper. Relative to the levels set in 2013/14, the change in LCTS across authorities has ranged from a 20% reduction to 30-40% increases. Geoff stated no authority has achieved the 40% reduction implied by current funding levels. He felt that this should be recognised in some way, particularly in relation to support for pensioners, which represents an unavoidable cost.

4.24. Nicola Morton queried whether authorities had increased LCTS spend over this period. Geoff replied this was based on reported spend, relative to 2013/14 allocations. Nikki Bishop commented increases may be due to demographic changes, such as an

increase in the elderly population. Geoff mentioned that DCLG statistics showed approximately £1.5bn in respect of pensioner claimants.

- 4.25. Alan Cross said the Government policy for funding LCTS was currently unclear as a result of the way in which funding was rolled into RSG.
- 4.26. Nick Eveleigh mentioned that the largest constraint for district councils in relation to LCTS was the level of council tax that can actually be collected. Alan Cross said that when collection rates fall there is a risk that an authority's overall budget assumptions are undermined.
- 4.27. Graham Soulsby felt that given the variation in LCTS across authorities, the principled approach being taken to council tax more widely should be consistent with the approach to LCTS. DCLG recognised the point and responded that it was important to settle the fundamental approach to resource adjustments so that other adjustments, such as LCTS, were considered on a consistent basis.
- 4.28. Paul Woods felt there should be an active decision by Ministers on the level of pensioner funding that is allocated through LCTS as at present this was obscured within the technicalities of the wider system. Paul said the he felt the discussion around a notional or actual approach was complicated by the fact that when DWP LCTS funding was transferred it was based on actual Band D levels. Taking a fully notional approach may therefore significantly affect future allocations. Paul felt this was an issue the group should return to in future and that two approaches should be modelled: one based on a fully notional approach and a second approach based on notional Council Tax that takes account of actual LCTS allocations from 2013/14.
- 4.29. In answer to a question 3 in the paper, Paul felt that transparency should be a key consideration in determining the approach to LCTS to support local decision makers.
- 4.30. Nick Eveleigh pointed out that in two-tier areas, LCTS schemes are determined by district councils. Whilst the counties have some influence, LCTS schemes may be designed based on the priorities of the district and take account of anticipated collections rates.
- 4.31. Graham Soulsby said it would be helpful for LCTS funding to be separately identified.
- 4.32. Nikki Bishop pointed out some wider issues that would need to be looked at alongside LCTS, such as student exemptions.
- 4.33. The chair summarised the consensus from the LCTS discussion as:
- LCTS is important and should be taken into account in a resources adjustment. There are different views of the manner on which this would be done and we will need to give this further thought.
 - The group discussed different potential approaches (notional or mixed approaches).
 - We concluded that LCTS is one of a suite of areas in which we might consider making an adjustment to the tax base; the candidate areas discussed included council tax freeze grant, and student exemptions.
 - There should be clear thinking about each of these that considers the case for making an adjustment and how this might be done.

- DCLG will bring further papers back to the group on these issues at later meetings.

4.34. Paul Woods offered to bring some further modelling on LCTS to a future meeting looking at the notional vs. actual approach. The chair thanked Paul and said that contributions from any members that were keen to do so would be welcome.

5. Potential approaches to developing a foundation formula (NR TWG 17-11) – DCLG

- 5.1. DCLG presented the discussion paper '[Potential approaches to developing a foundation formula](#)' which considered an approach which covered all council services or alternatively one in which a foundation formula had a reduced scope and sat alongside several service specific formulas.
- 5.2. Dan Bates clarified whether a Central Allocation would be a component of the new system. DCLG responded that the scope of the Review included relative need, relative resources and transitional arrangements. There was currently no strong rationale to have a Central Allocation, but some per capita measure may be appropriate, which could have a bearing on our approach to a foundation formula.
- 5.3. There was a discussion on the initial findings of the paper in which population is highly correlated with need. On Chart 1 Alan Cross said that whilst population showed a high correlation with need, it wasn't the only explanatory factor.
- 5.4. Geoff Winterbottom asked what measure of population was used in the analysis and on what basis need was factored in. DCLG responded that the variable of net current expenditure (NCE) was divided through by population and the area cost adjustment. Many variables were used, including different sections of the population, deprivation weighting and sparsity.
- 5.5. Nicola Morton mentioned that an R^2 value of 93% was high and it was important to present this in a balanced way given the tables showed the actual level of variation created by a simple single formula. Nicola also pointed out that spend may have changed significantly since 2011-12, and up-to-date data may have different results.
- 5.6. On the balance between simplicity and complexity, Paul Woods felt that complexity was necessary to achieve a fair system and was not in favour of moving to a simple population based approach. He pointed out that sustainability of the formula beyond 2020 should be considered and that a single formula would limit the extent to which additional funding could be brought into the system and targeted towards particular service areas. Paul felt that there were ways in which a complex approach could be presented in a simple and understandable way.
- 5.7. Dan Bates asked whether the residual amount in the analysis could relate to fixed costs and how fixed costs would be accounted for. DCLG responded that the outcome of a regression-based approach would be a fixed cost plus a gradient, as determined by local factors.
- 5.8. Geoff Winterbottom was surprised that factoring in deprivation and sparsity had such a limited effect. DCLG clarified that because population explains so much of the overall variation, the impact of these other factors is limited. They do bring some outlying authorities closer, but the overall change to the scale is minimal.

5.9. Nikki Bishop said the fact the analysis is based on expenditure rather than actual need may be relevant as authorities have finite resources and prioritise service provision accordingly.

5.10. Geoff Winterbottom said there may be value in developing a model which sets out what should be spent based on factors such as population. Nikki Bishop responded that this was what the ALATS model did by looking at cost drivers rather than how much money had been spent. DCLG clarified that the foundation formula would likewise do this as it would be based on a small set of key cost drivers. Regressions would only be used to determine the weighting of the particular cost drivers included, which is an issue the ALATS model hasn't accounted for.

5.11. DCLG also pointed out that for the two key social service areas there was the prospect of using a more sophisticated multi-level approach that would not rely on simple regressions and address concerns around LA level regressions. Outside of these, the discussion paper suggests it would be possible to take a more transparent approach to a population based foundation formula. There was agreement in the group that there was strong rationale for social services to sit outside of a foundation formula and a case would have to be made for which services were represented in the foundation formula.

5.12. The chair summed up the discussion as follows:

- The group was impressed at the correlation with population as a driver of spend, but acknowledged this alone doesn't tell the full story.
- There is likely a strong argument for developing specific formulas for a limited number of service areas.
- There is a degree of optimism that once those service areas are tackled, the foundation formula offered a simple and transparent approach for residual funding, pending the outcome of further analysis.

5.13. The chair read an update from the ALATS subgroup which stated that ALATS have parked their work and will be meeting as core group in early December. They remain happy to act as sounding board and coordinate work as requested.

6. LGA work programme (NR TWG 17-12) - LGA

6.1. Aiva provided an overview of the [LGA work programme paper](#).

7. Any other business:

7.1. A [read-out from the meeting](#) for public use was agreed.

Annex: Meeting attendees

Attendee	Organisation
Stuart Hoggan (Chair)	DCLG
Trefor Henman	DCLG
Charlie Coleman	DCLG
Emily Gascoigne	DCLG
Stephen Smith	DCLG
Duncan Cook	DCLG
John Bray	DCLG
Karen Sussex	DCLG
Aivaras Statkevičius	LGA
Nicola Morton	LGA
Nick Eveleigh	SDCT
Nikki Bishop	SMT
Duncan Whitfield	SLT
Alan Cross	SUT
Graham Soulsby	DCN
Dan Bates	RSN
Geoff Winterbottom	SIGOMA
Paul Honeyben (apologies) Substitute: Peter O'Connell	London Councils
Carla-Maria Heath	IRRV
Jenny Owens (apologies) Substitute: Andy Camp	SCT Analysis Unit
David Northey	South West
Paul Woods	North East CA
Adrian Blaylock	CIPFA
Phil Hales	Fire and Rescue Authorities
Martin Mitchell (apologies) Substitute: Mark Johnson	GLA