



(NR TWG 16/13) Minutes – Meeting of Technical Working Group on Needs & Redistribution

Title: **Needs & Redistribution Technical Working Group**
Date: **Thursday 4 August 2016**
Venue: **Smith Square 1, Ground Floor, Local Government House, Smith Square,
London, SW1P 3HZ**

1. Attendance

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

2. Welcome and Introductions

2.1. After an initial round of introductions, the Chair welcomed attendees to the fourth meeting of the Group.

3. Feedback from the last Minutes

3.1. The Chair asked attendees for feedback on the minutes from the last meeting. The following comments were made:

- A correction was proposed by Alan Cross relating to 4.6 - to add “in all areas” at the end of the first sentence.
- Alan also proposed a correction to para 6.4 - to replace “measuring need” with “determining cost pressures”.

ACTION (16/21): DCLG to correct minutes summary for 4 July 2016.

4. Verbal Updates – Local Authority Proposal

4.1. Duncan Whitfield provided an update on the meeting held the day before with local authority and technical working group members.

4.2. Duncan stated that funding for any new responsibilities would be key and should remain stable when they were first included within the system, for

example by maintaining their current distributions. Over time an update of the formulae could be considered.

- 4.3. Sean Pearce, who also attended the meeting, explained that the group was working on basket of primary cost drivers/indicators and would be seeking input from Special Interest Groups as to which measures should be included.
- 4.4. There would need to be transitional arrangements, as it was likely that the new formulae would differ from the previous allocations.
- 4.5. The group believed that an early exemplification of the options proposed would be helpful, but recognised that discussions with lead departments would be a necessary part of the process.
- 4.6. The group were clear that an overall work plan would enable them plan their approach. Duncan Whitfield was keen to inject pace on this matter because there were dependencies and therefore a need to sequence of decisions.
- 4.7. When asked to confirm to what timetable the group should be working, Stuart Hoggan referred to the fact that the previous Secretary of State had announced a proposed start date of 2019-20; however, officials had yet to ask the new Secretary of State for his views.
- 4.8. Duncan Whitfield informed the group and DCLG that the LA group's next meeting would be on 24 August and that they would benefit from having officials from DCLG in attendance.

ACTION (16/22): LGF officials to check their availability for 24 August 2016

5. Feedback on Business Rates Reform consultation: Call for Evidence on Needs & Redistribution

- 5.1. Duncan Whitfield recognised the constraints surrounding the Department in publishing the consultation paper but suggested that the Group could have contributed to the wording of the questions to help councils respond.
- 5.2. The Group was keen to receive an overview of responses to the consultation, as these may suggest alternative approaches that the Group may wish to consider. DCLG promised to explore possible options for sharing some of the information with the group.
- 5.3. Paul Woods noted that the geographic level at which needs should be measured was important and needed further consideration.

ACTION (16/23): DCLG to consider how to share ideas from consultation with TWG

6. Resets & Needs Paper (NR TWG 16/10)

- 6.1. The paper followed on from a technical paper that had been discussed at the Systems Designs Working Group on the treatment of growth at resets. DCLG outlined how an illustrative model of councils' needs, based on historical growth, had been developed and how these projections fed into the illustrative business rates model. The modelling was designed to enable different scenarios to be simulated but would not be able to show how individual authorities might benefit from particular options.
- 6.2. Duncan Whitfield said that the Group understood that the model was illustrative and agreed that the ability to test alternative options was helpful. They recognised that it was not possible to completely future proof the system, but thought the model might be useful to help examine whether changes in policy might be reflected sooner than through the current system.
- 6.3. David Smith stated that legislation should enable Ministers to change the system every five years if required. He felt that the large number of formulae existing in 2015-16 evidenced that change occurs continuously and that ten year time periods were therefore far too long.
- 6.4. Aiva pointed out that integration of new services into the system could create new burden issues for local authorities. Future proofing of new burdens should also be considered under any new system.
- 6.5. Other members of the group recognised that the more frequently that the needs baseline changed, the more it will affect income and growth. They felt there needed to be a clear understanding and agreement as to how frequent the needs baseline would need to be reset.
- 6.6. The group agreed that having fixed timelines for partial and full resets was desirable in order to provide certainty over the minimum level of funding councils could expect. They also recognised there was a trade-off between the frequency of resets and the strength of the growth incentive. They felt updating the needs baseline to reflect changing demands was more important than the growth incentive.
- 6.7. John Bray asked whether it would be possible to show a similar chart to chart 1 but reflecting the full range of authorities rather than just the interquartile range. Jonathan Dallaston explained that this was possible but as the model was based on historical growth it would potentially magnify the outlier effect – for example there was one district whose growth was forecast to be astronomical.
- 6.8. Stuart Hoggan reassured the group that further work would be undertaken around the risk in both changes to their needs and changes to the business rates tax base, and the mechanisms that would be in place to deal with this.

- 6.9. At this point the Group turned their attention to transitional arrangements. There was some debate about the need for transitional schemes but the group agreed that any measures to damp changes should be transitional mechanisms and not permanently built into the system i.e. they should unwind over time. It was agreed that a transitional mechanism would probably be required but that the design would be influenced by the needs mechanism.
- 6.10. Martin Mitchell pointed out that revaluations can also have huge repercussions for local authorities' income as can appeals both of which can lead to authorities ending up on the safety net. It was agreed to return to considering transitional arrangements when more was known about the approach to measuring need.
- 6.11. Members of the group suggested that 50% retention could have very different impacts on an authority's finances depending on the relationship between business rates and needs in an authority. 50% retention of growth in Westminster was likely to have far more of an incentive effect than 50% in a rural district where the business rates tax base largely consisted of small retail businesses.
- 6.12. Sean Pearce said that certainty was important, as was avoiding cliff edges (although he felt that the 75%/25% shown in the charts was reasonable).
- 6.13. Alan Cross agreed that resets should take account of changes in needs and resources together. He also felt that allowing growth to be accumulated through a 20 year period and then a full reset absorbing that growth into the pot for redistribution led to cliff edges. He suggested that having a fixed period of rolling growth might be preferable.
- 6.14. DCLG responded that rolling growth was an interesting point. It was something that DCLG would take away and consider further.

ACTION 16/24: DCLG to produce a paper on Resets that considers both the treatment of growth and needs and presents illustrative scenarios for the combined impact on LA income.

7. EPCS: Assessment of Need – ANEC- (16/11)

- 7.1. Paul Woods presented the paper to the Group. The paper highlighted the work that Darlington had done around identifying the expected components of expenditure on EPCS services in 2019-20. This highlighted that there could be a number of significant spending commitments beyond waste collection.
- 7.2. It was suggested that the table raised an important point if regressions against past expenditure were used to determine needs formula. The overall reduction in income over the period should form an explanatory variable within the regressions.

8. Paper on Taking Account of Differences In Ability To Raise Council Tax Income – ANEC- (16/12)

- 8.1. Paul Woods presented his second paper to the Group. The focus of the group had been concentrated on spending needs. However an authority's ability to raise income also needed to be considered. The paper highlighted differences in council's ability to raise income through council tax.
- 8.2. The group discussed the themes in the paper and in particular some of the issues around how locally set discounts/exemptions should be handled under 100% business rates retention.
- 8.3. DCLG confirmed that the ability of local authorities to raise revenue locally was an important element for the group to consider but argued that this should be considered once more work had been done to establish how needs would be measured in the new system. It was agreed that a separate meeting covering council tax should be set up in due course.

ACTION (16/25): DCLG to arrange for Council Tax policy official to attend an upcoming working group meeting to present a session on this issue.

9. Verbal Updates – Other Departmental Engagement

- 9.1. Ian Rose gave a short update on engagement with other government departments. Department of Health officials had agreed to attend a Technical Working meeting on adultsocial care. DfE officials have also been invited to attend a meeting on children's social care.
- 9.2. Group members also enquired whether there were also plans to engage Home Office regarding fire issues; they were mindful that the consultation did have a key question around fire authorities. Ian responded that it could be arranged.

10.AOB

- 10.1. The action points were summarised and agreed as being the next steps to take forward.
- 10.2. It was collectively agreed the next meeting would be on 5 September 2016.

Attendee	Organisation
Chris Megainey - (Chair)	DCLG
Aivaras Statkevičius	Local Government Association (LGA)
Sean Pearce	Society of County Treasurers
David Northey	SOUTH WEST - Plymouth Council
Alan Cross	Society of Unitary Treasurers
Sally Marshall (phone)	District Councils Network
Caroline Lee (phone)	CIPFA
Carla-Maria Heath	City of London - IRRV
Paul Woods	North East Combined Authority
Martin Mitchell	Greater London Authority
Duncan Whitfield	Society of London Treasurers Southwark Council
David Smith	Society of Municipal Treasurers
James Walton (phone)	Shropshire Council
Amy Lane	SCT Analysis Unit
John Bray	London Councils
Jeff Garfoot	SIGOMA
Dave Shipton	County Councils Network
Karen Sussex	DCLG
Stuart Hoggan	DCLG
Ian Rose	DCLG
Maxwell Soule	DCLG
James Livingston	DCLG
Jonathan Dallaston	DCLG
Stephen Smith	DCLG
Shafi Khan	DCLG