Department for Communities and Local Government

Title:	**Needs & Redistribution Technical Working Group**
Paper:	**NR TWG 16/10 – Resets and Needs**
Date:	**Thursday 4 August 2016**
Venue:	**Smith Square 1, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ**

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Resets and Needs

Introduction

1. At the working group meeting on 4 July we had a discussion on a technical paper that had been discussed at the Systems Designs Working Group on resetting the Business Rates Retention system and the treatment of growth.

2. Since that discussion DCLG have completed some initial modelling which makes it possible to demonstrate the potential impact of different approaches to resetting the system. Some illustrative outputs from this model were used to inform a discussion of the Systems Design Working Group on 25 July (you can find the paper they discussed on the [LGA website](#)) about reset options.

3. Since both resets and the treatment of growth within the system are matters that span both the Systems Design and Needs and Resources working groups, this paper builds on that presented to the System Design Working Group by introducing **illustrative** modelling of updating local authorities' relative needs to coincide with partial resets.

4. Given that we have not yet decided how relative needs assessments will be determined in the future we have had to base the current **illustrative** model on the 2013-14 needs assessment.[1] Further information on how we have modelled the **illustrative** needs is provided at Annex A. Once we have decided on what

---

[1] As with the System design model outputs current system settings have been applied with respect to tier splits, and real receipts are assumed to grow at 0.1%pa. A safety net is not included at this stage. These assumptions have been made for modelling purposes only.

alternative models for relative needs assessments we wish to explore, we will update the modelling.

**Does the Group agree that this is a sensible method for illustrating relative need at this stage?**

If not, what alternative method would the Group wish to see modelled?

System Design Working Group proposal – partial reset every 5 years

5. The Systems Design Working Group were attracted to the idea of partial resets that would allow local authorities to retain a proportion of their growth for an extended period while more frequent partial resets were used to top up those authorities that saw losses in their business rates income. The key features of this proposal are:

- Full resets every 20 years
- Partial resets every 5 years
- At a partial reset local authorities retain 50%[2] of growth
- The other 50%[1] of growth would be used to return any authorities who have seen negative growth to 100% of their relative baseline funding level.

6. Chart one below illustrates the potential impact that this sort of system would have on local authorities' income. All divergence is removed in year 20 when receipts growth is fully redistributed. Partial resets in year 5, 10 and 15 remove some of the divergence between income and 'need', but a variation nevertheless grows over time due to cumulative growth retention.

---
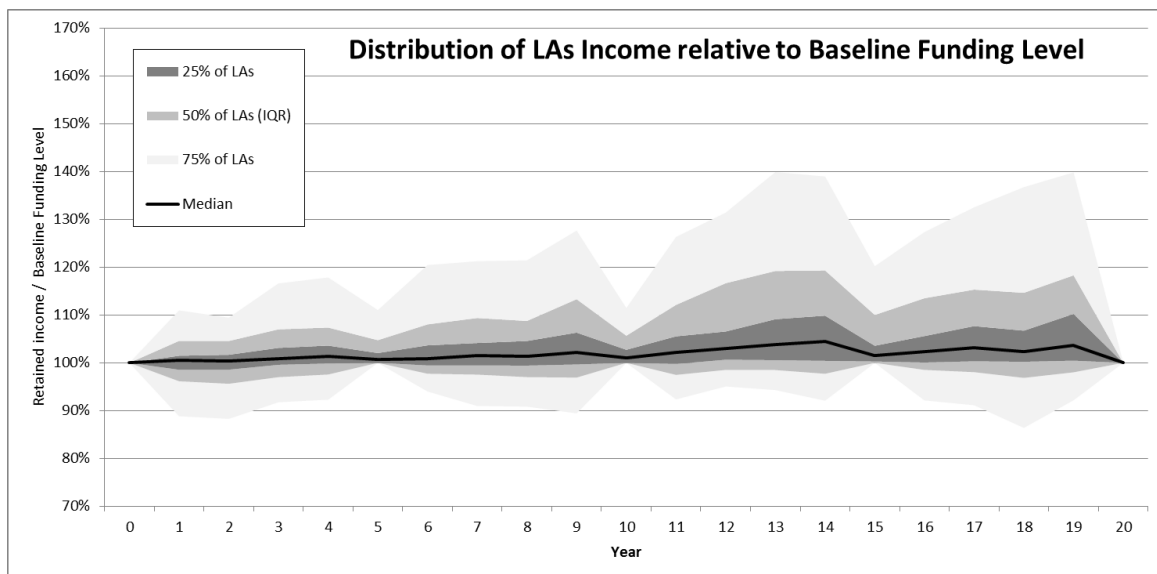
[2] This percentage is not fixed or agreed. One of the actions arising from the Systems Design Working Group is for DCLG to explore the implications of setting this proportion at different levels.

Chart 1: Distribution of income relative to baseline funding levels

Relative needs assessments and partial resets

7. The paper considered by the Systems Design Working Group made no assumptions about the assessment of local authorities' relative needs. The purpose of this paper is to facilitate a discussion on the potential options for updating the assessment of local authorities' relative needs to coincide with partial resets.

8. A partial reset creates a clear opportunity to take more frequent account of local authorities' relative needs but there are a number of different ways this could be done – see Annex B. This paper presents two potential options and presents some **illustrative** modelling to show the characteristics we would expect these different approaches to have. The two options are:

    i)   Updating relative needs within fixed control totals; and
    ii)   Updating relative needs and control totals.

9. Regardless, of the option chosen, authorities experiencing growth will continue to receive more funding than they would otherwise have done had they not experienced growth in their business rates.

Outcomes of modelled approaches

10. The following charts show the divergence from underlying need under the two options. In line with paragraph 4 above, both charts show the effect of partial resets every 5 years (needs are fully recalculated and 50% of real growth is retained). Growth is fully redistributed at a 'full reset' every 20 years.

11. Service 1 illustrates demand-led services that are currently supported through the settlement e.g. social care; service 2 illustrates other services that are currently supported through the settlement e.g. highway maintenance; service 3 illustrates demand-led new responsibilities; and service 4 illustrates other new responsibilities.
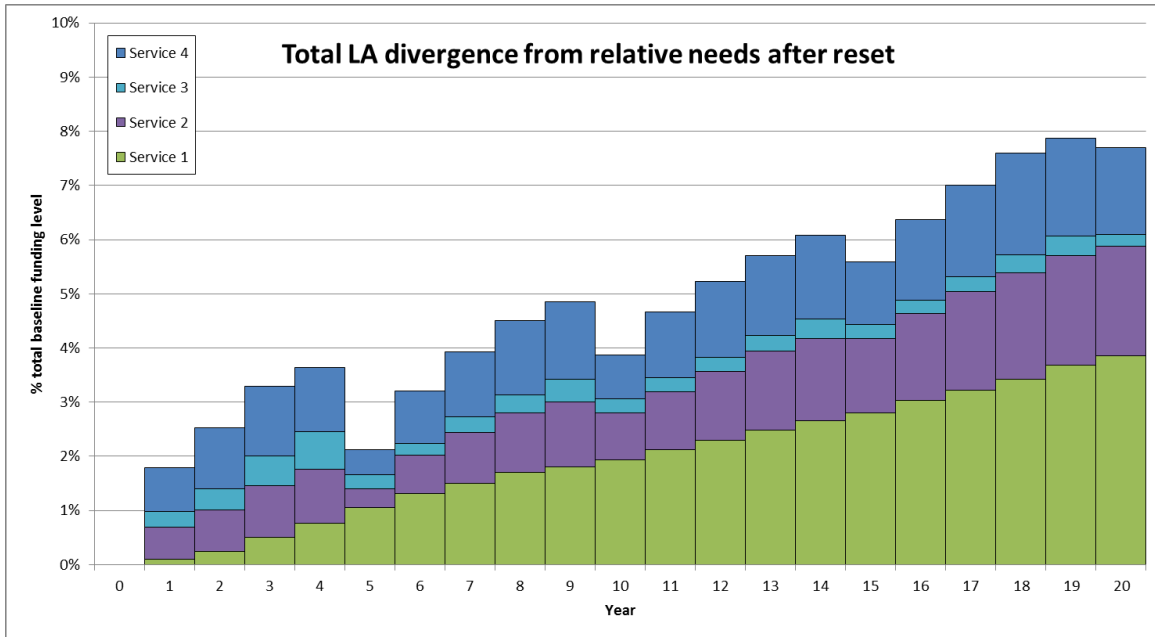
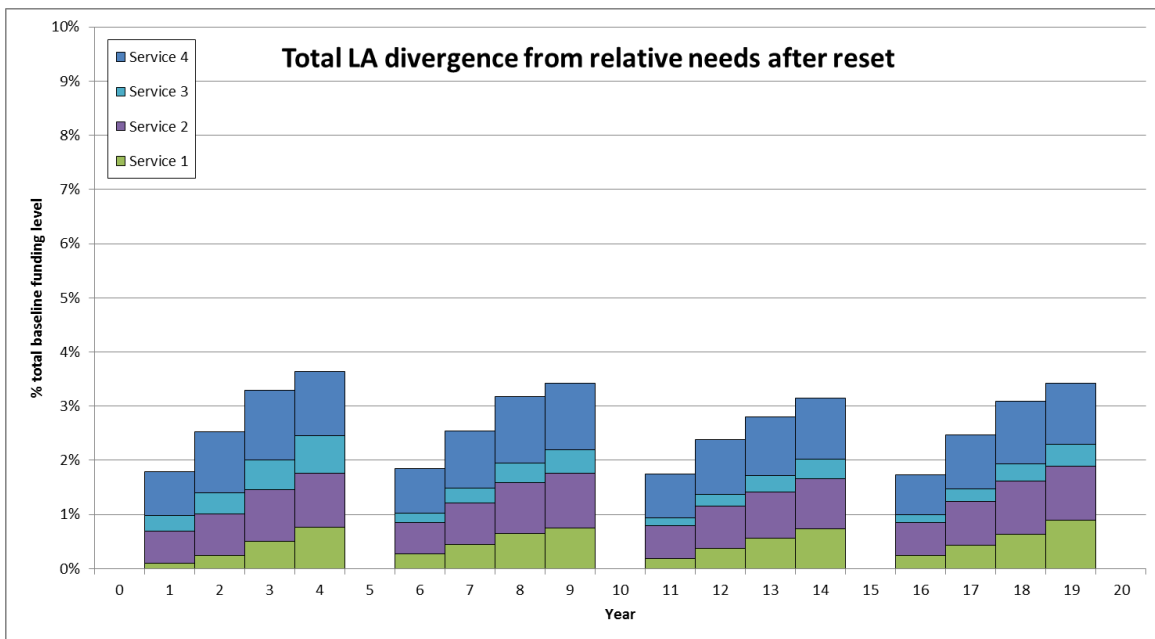**Chart 2: Updating relative needs within fixed control totals**

Chart 3: Updating relative needs and control totals

12. As can be seen from Chart 2, updating the distribution within fixed control totals means that whilst the divergence between underlying needs is reduced at resets it is not completely countered. Even at full reset (year 20), for example, the model has not taken into account that Service 1 pressure has grown faster than Service 2 pressure. Re-calculated tariffs and top-ups in year 20 fail to reflect all changes in relative need, underfunding some authorities and overfunding others.

13. Chart 3 on the other hand resets relative needs and updates control totals at partial resets, with consequently less divergence in needs over time. Under this

scenario, tariffs and top-ups are recalculated to reflect Service 1 costs growing much faster than Service 2 costs (within our illustrative needs data).

14. However, some authorities may experience a reduction in their baseline funding level at the time of a partial reset as a result of redistribution due to updating the relative needs assessment. However, if they have experienced growth during the reset period they will continue to receive this element.

Does the Group agree that (some) relative needs should be updated at partial resets?

If so, which of the options outlined at Annex B does the Group think should be modelled?

Are there other options we have not considered?

Next steps

15. The next step is to combine the steers from this group with those from the System Design Working Group and bring a more detailed paper on the illustrative results where both income and needs are updated (to some extent) at a partial reset.

Annex A: Modelling Needs

The starting point for the relative needs model was the 2013-14 RNFs, converted into cash equivalents, and the distributions of other grants which have been added into the settlement from 2011-12 onwards, deflated using the GDP deflator to 2013-14 values where necessary. An estimate of relative need in each year was then created by multiplying the need by the proportional change in the appropriate population client group. For some services (e.g. highway maintenance) service usage is not directly related to the resident population; for these services assumed need was assumed to remain flat.

A table showing the populations used is provided below.

Table A1: Population Groups associated with each RNF etc

Formulae within SFA	Population age group
RNFs	
Children's Services	
Youth and Community	Population aged 13 to 19
Local Authority Central Education Functions	Population aged 3 to 17
Children's Social Care	Population aged 0 to 17
Adult Social Care	
Younger Adults Social Care	Population aged 18 to 64
Older People's Social Care	Population aged 75 and over
Fire and Rescue	All ages
Highway Maintenance	
Environmental, Protective and Cultural Services	
District-Level EPCS	All ages
County-Level EPCS	All ages
Concessionary Travel	Population aged 60 and over
Flood Defence	-
Continuing EA Levies	-
Coast Protection	-
Fixed Costs	-
Capital Financing	-
Special Grants rolled in from 2011-12	
Local Transport Services	-
Supporting People	Population aged 18 to 64
Housing Strategy for Older People	Population aged 65 and over
LSC Staff Transfer	-
Preserved Rights	All ages
HIV/AIDS Support	All ages
Animal Health & Welfare	-
County Council Functions for Civil Contingencies in London	-

Special Grants rolled in from 2013-14	
2011-12 Council Tax Freeze Compensation	-
Council Tax Support Funding	-
Early Intervention Funding	Population aged 0 to 19
GLA General Funding	-
GLA Transport Funding	-
London Bus Services Operators Grant	-
Homelessness Prevention Funding	All ages
Lead Local Flood Authorities Funding	-
Learning Disability and Health Reform Funding	-
Special Grants rolled in after 2013-14 (RSG only)	
2013-14 Council Tax Freeze Grant	-
2014-15 Council Tax Freeze Grant	-
2015-16 Council Tax Freeze Grant	-
Local Welfare Provision	All ages
Efficiency Support Grant 2014-15	-
Efficiency Support Grant 2015-16	-
Lead Local Flood Authorities Funding Part 2	-
Statutory consultees on SuDS	-
Carbon Monoxide and Fire Alarms	-
Care Act: Funding Reform	Population aged 65 and over
Care Act: Carers etc	Population aged 65 and over

The capital financing RNF has previously been assumed to reduce by 4% per annum since the majority of loans taken out through PWLB are repaid over 25 years. We therefore multiplied this by 0.96 each year.

Resets

At each reset the needs for each service have been adjusted to reflect the potential changes in needs distribution between authorities.

Annex B: Alternative models for updating needs at partial resets

	Updating Control Totals	Updating data	Updating methodology	Updating demand-led services only for data	Updating demand-led services only for methodology
Option 1		✔	✔		
Option 2	✔	✔	✔		
Option 3		✔			
Option 4	✔	✔			
Option 5				✔	✔
Option 6	✔			✔	✔
Option 7				✔	
Option 8	✔			✔	
Option 9	✔				