



Ministry of Housing,
Communities &
Local Government

A review of local authorities' relative needs and resources:

Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements

**Introductory presentation to be read alongside the
December 2018 consultation**

This consultation closes on 21 February 2019



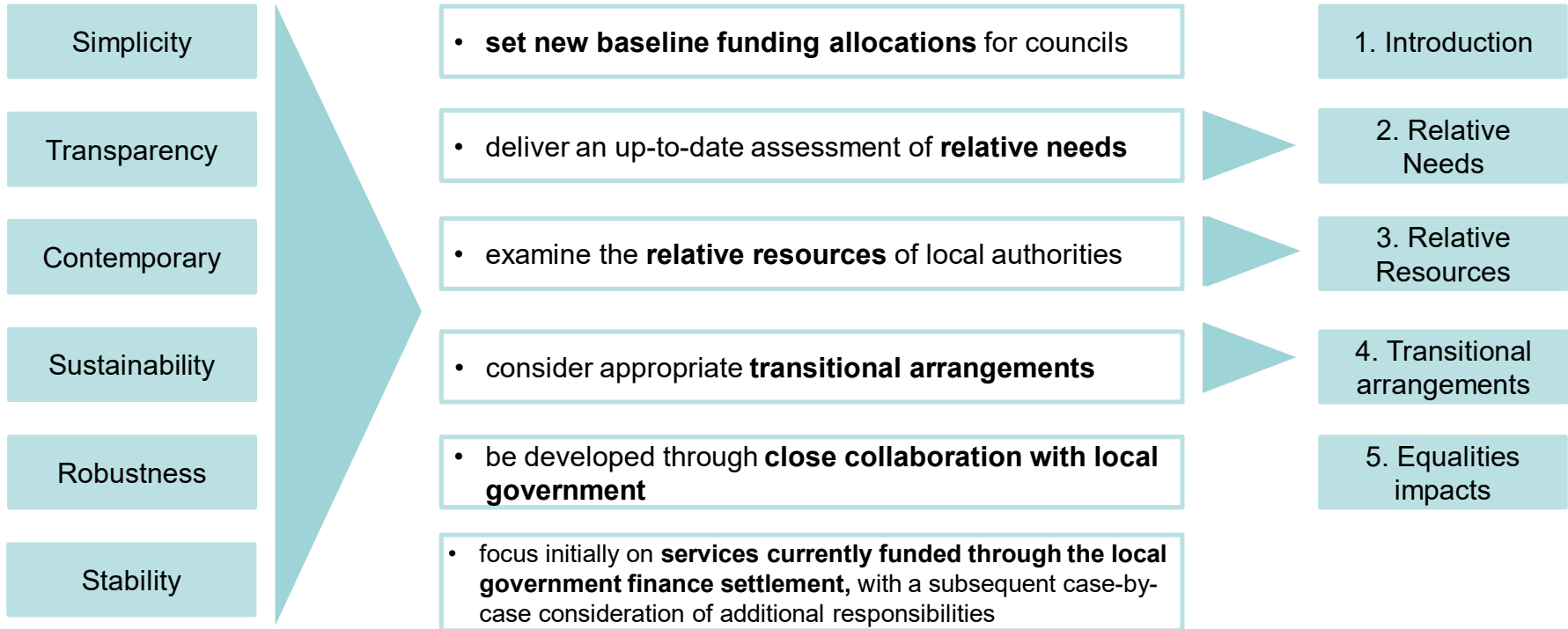
In order to address concerns that the current formula is unfair, out of date and overly complex, the Government is carrying out a review of local authorities' relative needs and resources

Numbers in brackets refer to paragraphs in the consultation, which contains full explanations

Principles of the Review (1.3)

Terms of Reference for the Review (1.2):

December 2018 Consultation chapters (1.5)





Councils' relative needs are determined through funding formulas, which incorporate relevant local data, to predict the relative demand councils face when delivering different services (1.2)

Structure of the needs assessment (2.2)

- In order to strike a balance between simplicity, transparency and precision, the Government has taken a number of factors into consideration when **settling the number and type of relative needs formulas** required, and the **cost drivers** included in them

Area Cost Adjustment (2.3)

- The needs assessment separates factors between those which drive **demand for the number of services or interventions required** (e.g. the number of people living in a local authority area), and those which affect the **cost of delivering those services or interventions** (e.g. the cost of employing staff which will vary across the country, or the impact of providing services across congested or sparsely populated areas)

Weighting cost drivers in a formula (2.5)

- To minimise the use of judgement in the needs assessment, **statistical techniques** offer the best available empirical basis for determining which cost drivers are most significant in driving authorities' need to spend on particular services, and the **relative importance (or weighting)** of cost drivers included in a formula

Weighting of funding between services (2.4)

- It will be necessary to decide what **proportion of the overall funding** that is available through the settlement will be **allocated by each formula**

Future proofing the needs assessment (2.6)

- A key consideration is the balance we wish to strike between **future-proofing the formula** in a way that does not undermine funding certainty for authorities



The Government is minded to deploy a per capita Foundation Formula for upper and lower tier authorities, alongside seven service-specific funding formulas (2.1)

Relative need formulas by class of authority:

Relative Needs Formulas (Consultation references including overview of relevant cost drivers)		Shire Areas			Metropolitan Areas	London	Other
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities
Foundation Formula (2.2.10)	Upper Tier	●	●		●	●	
	Lower tier	●		●	●	●	
Adult Social Care (2.2.27)		●	●		●	●	
Children and Young People's Services (2.2.36)		●	●		●	●	
Public Health (2.2.41)		●	●		●	●	
Highways Maintenance (2.2.49)		●	●		●	●	
Fire & Rescue (2.2.67)		●	●				●
Legacy Capital Finance (2.2.53)		●	●	●	●	●	●
Flood Defence and Coastal Protection (2.2.57)		●		●	●	●	
Other potential service areas (2.2.75)							

Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

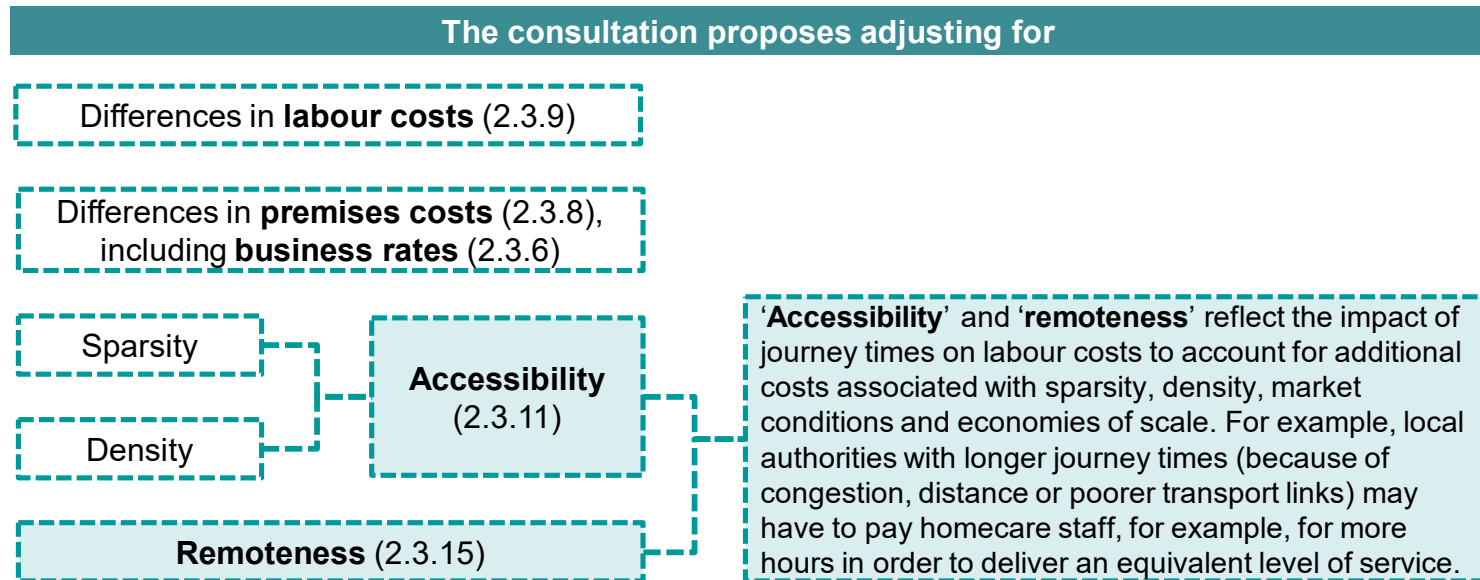
Question 2): What are your views on the best approach to a Fire funding formula and why?

Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?



The proposed Area Cost Adjustment (2.3) continues to adjust for differences in labour and business rates costs, and also considers the impact of 'Accessibility' and 'Remoteness'

- The relative needs assessment distinguishes between **relative needs formulas**, which determine demand for services, and the **Area Cost Adjustment (ACA)**, which accounts for factors that affect the costs of services.
- Costs may vary between authorities for multiple reasons e.g. the costs of **employing staff** or **renting non-domestic properties** can vary considerably. Some authorities also face unique **geographic pressures** e.g. the costs associated with conducting business from isolated or peripheral communities (including islands), or providing services to widely dispersed or densely concentrated populations.





The Government believes that it remains important to continue to take account of councils' relative ability to raise resources (3.1)

Local resources:

- From 2020-21, **council tax** (3.2) will account for a greater proportion of the income available to local authorities since the last review of the funding formula. However, the proportion varies at an individual local authority level, and
- **Sales, fees and charges** (3.3) are another source of income for many local authorities, which – like council tax – vary by local authority. Whilst the bulk are raised at cost recovery levels for services delivered, in some areas an authority's income from sales, fees and charges generates a surplus.

Final funding position	=	(relative needs share – relative resources adjustment)
	±	possible transitional arrangements
	+	actual resources income

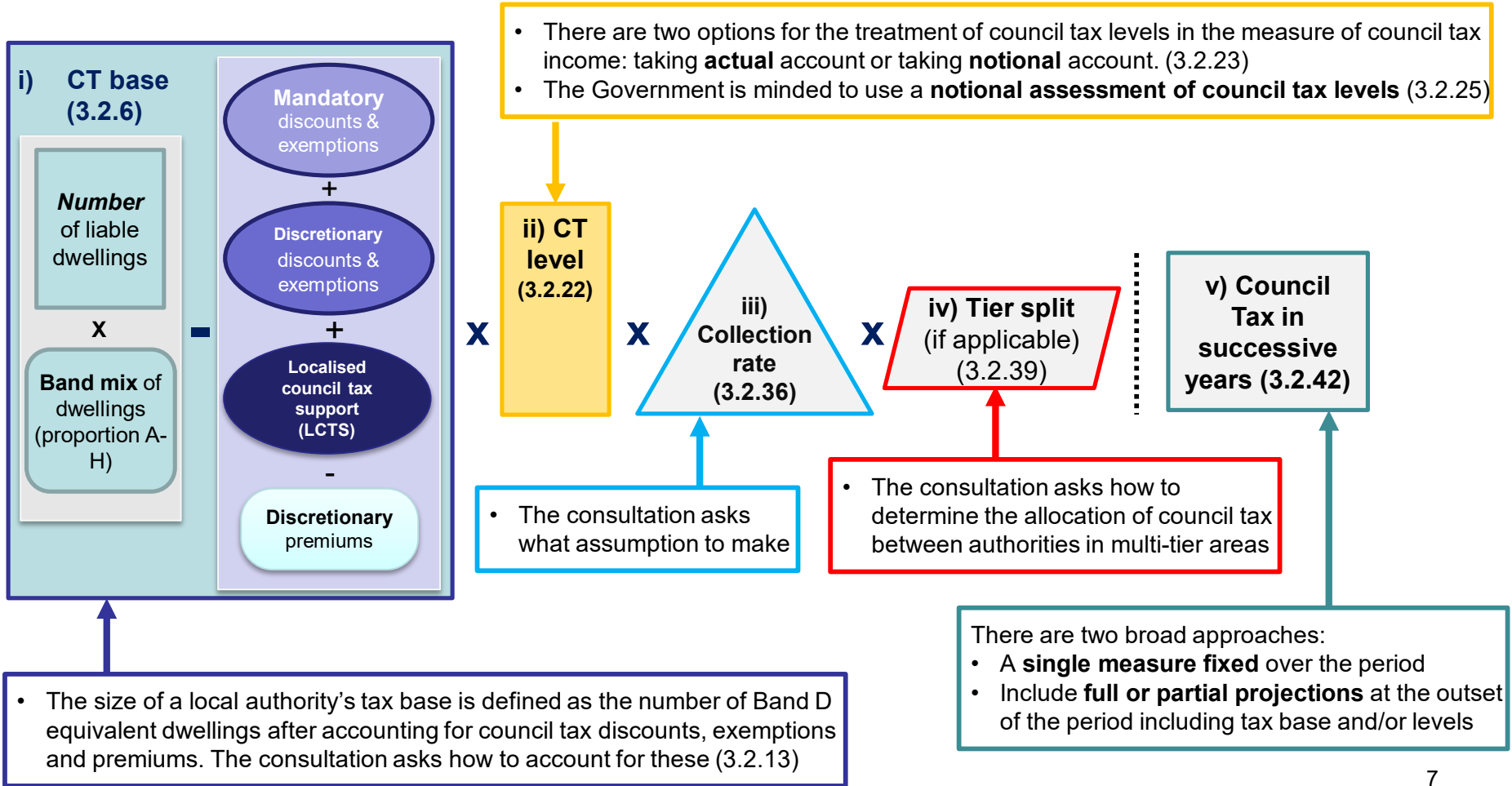
Supporting principles (3.1.4)

- Our approach to assessing relative resources will result in **no redistribution of council tax or sales, fees and charges resources between authorities**
- **We do not intend to reward or penalise authorities for exercising local discretion.**
- Local authorities with a lesser capacity to fund services through locally raised resources will receive a smaller reduction to their relative needs share



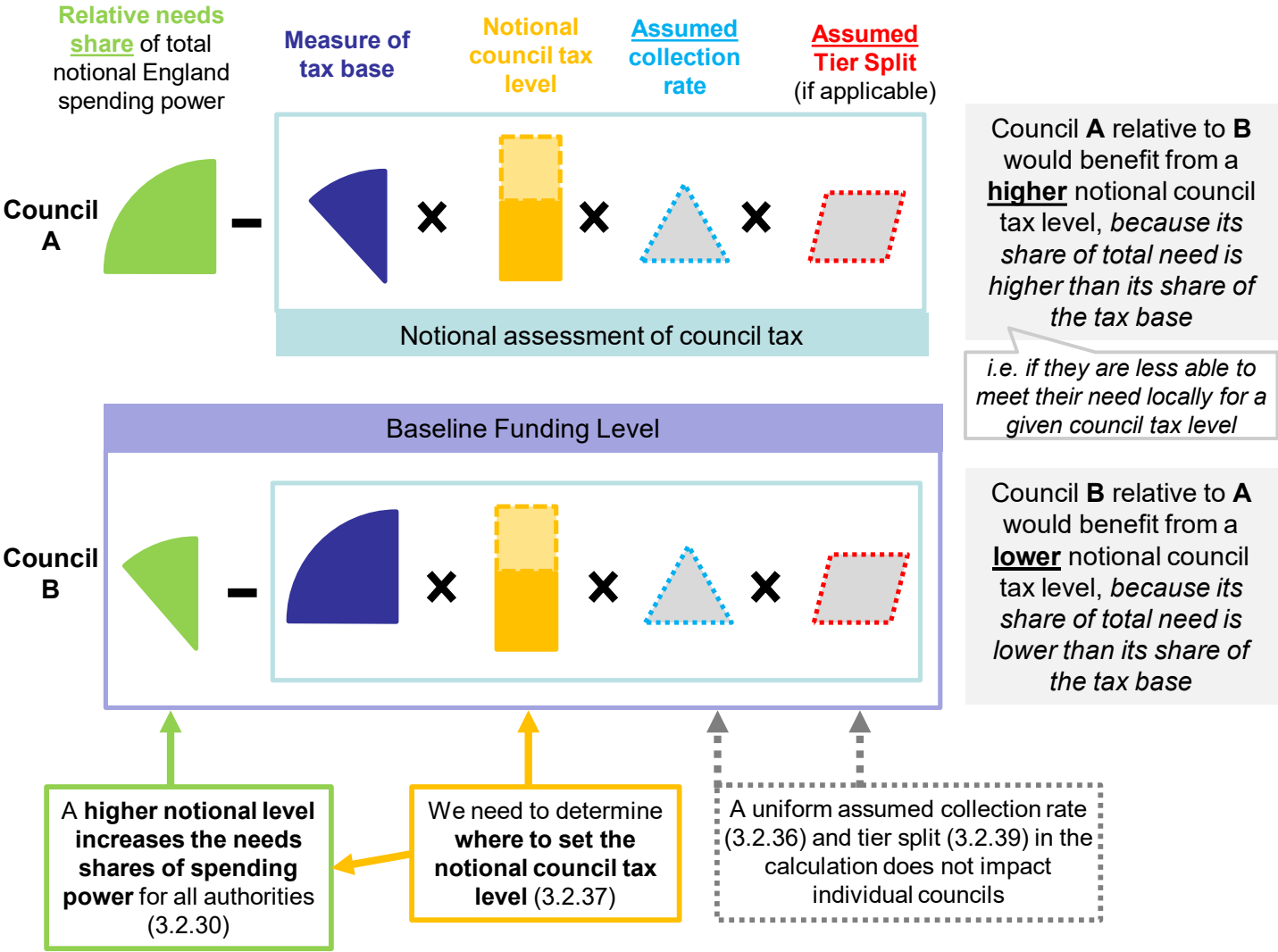
To reflect councils' varying ability to raise local resources, the Government will need to determine a measure of council tax income for the purposes of the relative resources adjustment (3.2)

The measure of council tax resource equals:





The impact of the level at which the notional council tax level is set (3.2.22) will vary depending on the ratio of the local authority's tax base (3.2.9) to its relative needs share (2.1)



Council **A** relative to **B** would benefit from a **higher** notional council tax level, because its share of total need is higher than its share of the tax base

i.e. if they are less able to meet their need locally for a given council tax level

Council **B** relative to **A** would benefit from a **lower** notional council tax level, because its share of total need is lower than its share of the tax base

- It is misleading to draw conclusions from a comparison of a council's actual council tax level against the notional council tax level
- Councils **do not systematically win or lose** from a higher or lower notional amount relative to their actual council tax level
- Final decisions on the notional level will be **subject to the outcome of the Spending Review** and business rates retention reform
- There are **multiple options** for where to set the notional level and the Government is keen to hear wider views before determining a preferred approach. A **discussion of the effects** is at 3.2.37



- Question 5):** Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemption) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?
- Question 6):** Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?
- Question 7):** Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?
- Question 8):** Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?
- Question 9):** What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?
- Question 10):** Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?
- Question 11):** Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?



Sales, fees and charges are another source of income for many councils, which - like council tax – vary by local authority (3.3)

Considerations taken into account (3.3.3)

Scale

Ability, choice and incentive effects

Volatility

Data availability

- Whilst the majority are raised at **cost recovery** levels for services delivered, in some areas an authority's income from sales, fees and charges generates a surplus, for example parking generated a surplus of £830m in 2017-18 (3.3.1)
- Unlike council tax, sales fees and charges have not previously been taken into account in a relative resources adjustment
- The Government recognises that there are **practical challenges** in taking a direct account of sales, fees and charges income through the resources adjustment and we are therefore broadly minded not to do so (3.3.4)
- However, there may be a case for taking **specific service areas** into account which have generated a significant level of surplus income for some authorities, such as on and off-street parking (3.3.5)

Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?

Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?



Once new funding baselines have been established, the Government intends to introduce transitional arrangements (4.1)

Principles to guide transition (4.2)

Stability	<ul style="list-style-type: none"> the transition from the existing funding position in 2019-20 to new target allocations must be manageable and sustainable for both the sector and individual local authorities, in the context of wider changes to the local government finance system
Transparency	<ul style="list-style-type: none"> the process must be clear and understandable to support financial planning and help explain the nature of transition to a wider audience
Time-limited	<ul style="list-style-type: none"> support for those authorities with reductions in settlement funding allocations using deferred gains for those authorities that see an increase in allocations should be provided over a fixed period of time and enable target allocations to be reached as soon as practicable
Flexibility	<ul style="list-style-type: none"> the speed of change could vary across the sector to achieve greater efficiency. Considerations might include local revenue raising capacity, distances from target allocations or relative funding pressures, for example to deliver statutory services

Establishing the baseline (4.3): the scale of transition will depend on the baseline it is measured from, and we propose the starting baseline for the purposes of transition will be a measure of the funding available to each local authority in 2019-20.

Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?



Equalities impacts of the proposals in this consultation (5.0)

- The **Public Sector Equality Duty** requires Ministers to have due regard to the need to eliminate discrimination and other conduct prohibited under the Equality Act 2010, advance equality of opportunity, and foster good relations between persons who share protected characteristics and those who do not.

Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.