

Distribution Sub-Group (2020) Paper 05 – Treatment of CTRS in the RA Build Model

This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.

Treatment of Council Tax Reduction Schemes in the Revenue Account Build Model

Summary

1. This paper revisits the arrangements for the treatment of Council Tax Reduction Schemes (CTRS) within the Revenue Account (RA) (Sector) Build model.

Views sought

2. This paper is for information only, but views are welcomed by the group on the suitability of the current arrangements.

Related papers

- *DSG (2019) Paper 14: Latest RA data for the 2020-21 Settlement*
- *DSG (2018) Paper 20: Latest RA Data for the 2019-20 Settlement*
- *DSG (2017) Paper 09: Updating the RA Data for the 2018-19 Settlement*
- *DSG (2016) Paper 15: Updating the RA Data for the 2017-18 Settlement*
- *DSG (2015) Paper 12: Latest RA data for the 2016-17 Settlement*
- *DSG (2015) Paper 07: Impact of Council Tax Increases on CTRS Distribution*

Background

3. From 2013-14, the local government settlement has included £244 million to support local government in delivering Council Tax Reduction Schemes (CTRS). This amount is the sum of £222 million that was transferred by the UK Government following the abolition of Council Tax Benefit, and £22 million, which the then Local Government Minister negotiated to cover the impact of maintaining entitlements under the new schemes as at the point of introduction.
4. This £244 million of funding is distributed annually, through the settlement, according to the latest full financial year data on income forgone by local authorities in running CTRS.
5. In addition to this funding, £4.77 million is distributed through the settlement annually, to subsidise the administration costs associated with delivering CTRS. This funding is distributed on the latest local authority CTRS caseload.
6. The £244 million distributed through the settlement for CTRS is treated as an 'actual' and has been fixed in the settlement since its introduction in 2013-14. DSG members have queried, on a number of occasions, whether this amount should be fixed or whether it should be treated in the same way as local authority service expenditure, whereby the Revenue

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Account (RA) and Revenue Outturn (RO) dataset the relative sizes of the Indicator Based Assessment (IBA) sectors and services, respectively.

Analysis

7. The Welsh Government takes the view that the CTRS IBA total in the settlement should remain fixed and should not move in line with relative local authority RA data. There are a number of reasons for this, outlined as follows:
 - (I) CTRS is not expenditure in the same way that funding is spent on delivering a service. It reduces council tax liability as a result of offering a reduction in council tax bills. The funding replaces council tax income which authorities might otherwise collect and may be used to fund any of the services or functions an authority provides (ie. it is not 'spent' on the CTRS itself).
 - (II) The original quantum that was included in the settlement reflected the value of reductions under CTRS at that point in time and was the amount agreed to be included in the settlement as a matter of policy.
 - (III) The value of reductions under CTRS rises either by an increase in caseloads or by local increases in council tax levels. As caseloads are consistently decreasing across Wales, the increase in CTRS is directly attributable to local increases in council tax. If the CTRS IBA total were linked to RA data, those authorities that increase their overall council tax bill by a greater amount will have more of an influence on the IBA total and, in turn, will receive a greater share of the CTRS IBA. This would mean rewarding authorities for increases in council tax.
 - (IV) CTRS was designed as a shared scheme between central and local government, with the Welsh Government having set its contribution at the initial £244 million that was included in 2013-14.
 - (V) The Welsh Government is in the process of reviewing CTRS more widely, so now would not be an appropriate time to make significant changes to the underlying methodology of how this is funded through the settlement.
8. For information, Table 1 in Annex A shows the financial implications of linking CTRS through to RA data in the settlement build. Under this scenario, Blaenau Gwent and Neath Port Talbot would both see an increase of 0.3% to their settlement, while Powys would see a reduction of 0.2%. In total, £2 million would be redistributed through this change.

Conclusion

9. Welsh Government officials do not recommend making any amendments to the treatment of CTRS in the RA build at the current time, but welcome comments from the group on their thoughts on this matter now and going forwards.

**Local Government Finance and Workforce Partnerships
Welsh Government**

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Annex A

Table 1: Financial Impact of Linking the CTRS IBA Total to RA Data in the 2020-21 Provisional Settlement

<i>£000s</i>					
Unitary authority	Provisional AEF 2020-21	Provisional AEF 2020-21, linking CTRS to RA	Change (£000)	Change (%)	Rank
Isle of Anglesey	101,005	100,925	-79	-0.1%	15
Gwynedd	187,579	187,407	-172	-0.1%	17
Conwy	161,398	161,393	-6	0.0%	10
Denbighshire	151,932	152,034	102	0.1%	7
Flintshire	199,386	199,128	-258	-0.1%	20
Wrexham	184,296	184,172	-124	-0.1%	13
Powys	184,289	184,000	-289	-0.2%	22
Ceredigion	107,646	107,538	-108	-0.1%	18
Pembrokeshire	172,204	171,972	-233	-0.1%	21
Carmarthenshire	274,159	274,057	-102	0.0%	11
Swansea	339,381	339,436	56	0.0%	9
Neath Port Talbot	226,762	227,359	597	0.3%	2
Bridgend	203,127	203,407	280	0.1%	3
The Vale Of Glamorgan	161,021	160,918	-103	-0.1%	12
Rhondda Cynon Taf	388,666	388,937	270	0.1%	6
Merthyr Tydfil	96,810	96,914	104	0.1%	4
Caerphilly	283,367	283,172	-195	-0.1%	14
Blaenau Gwent	116,063	116,380	317	0.3%	1
Torfaen	140,467	140,574	107	0.1%	5
Monmouthshire	97,760	97,677	-83	-0.1%	16
Newport	228,077	227,828	-249	-0.1%	19
Cardiff	469,047	469,216	169	0.0%	8
Total Unitary Authorities	4,474,444	4,474,444	0	0.0%	