

Distribution Sub-Group (2020) Paper 06 – Application of the Council Tax Base in Calculating the Settlement Uplift

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Application of the Council Tax Base in Calculating the Settlement Uplift

Summary

1. This paper revisits the methodology for calculating the settlement uplift, in which the previous year's settlement is rebased using the most up-to-date tax base.

Views sought

2. DSG members are asked to comment on whether they are content with the current methodology of rebasing the previous year's settlement using the most up-to-date tax base, when calculating the following year's settlement uplift.

Related papers

- *Distribution Sub-Group (2008) Paper 30: Floor Mechanism*

Background

3. Distribution Sub-Group (2008) Paper 30 approached the subject of the application of the council tax base in calculating the settlement uplift from the perspective of the uplift informing decisions around a funding floor. While the published level of one year's settlement has no bearing on the level of authorities' allocations in the following year's settlement (unless there is a funding floor) it does make a difference with regards to the presentation of the each authority's settlement uplift.
4. DSG (2008) Paper 30 outlined two different methodologies for calculating the 'settlement base' (the base for comparison of the following year's settlement): method one, where the floor mitigates for changes in the tax base; and method two, where the floor did not mitigate for changes to the tax base. In method one, no adjustment was made to the settlement base whereas, in method two, the previous year's settlement was re-based to take account of the latest tax base (the tax base used in the forthcoming settlement).
5. Members were supportive of method two as it would not compensate authorities for loss of grant as a result of increases to their tax base. This was consistent with the following extract from the Society of Welsh Treasurers Principles of Local Government Finance in Wales:

“Grant losses as a result of changes in the council tax base should not be mitigated.”

6. This method has been adopted in every settlement year where there has been a floor since, and it has also become standard practice to present settlement uplifts using this methodology in years where there has not been a floor.

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7. Following the publication of the 2020-21 local government settlement, Welsh Government officials have received a number of queries on the re-basing process. This paper aims to clarify the reasoning behind this process and gives members an opportunity to comment on the suitability of the current methodology.

Analysis

8. The aim of the current method of rebasing the settlement base year in the calculation of a floor is that no authority benefits through the floor, simply from a relative increase in its tax base from one year to the next. All other variables remaining the same (for simplicity), a relative increase in an authority's tax base alone from one year to the next would result in a reduction in their settlement, although the actual total amount of funding they would get (from settlement funding and council tax) would remain the same (assuming a consistent level of council tax (at standard spending) across Wales).
9. Figure 1 in Annex A provides a worked example of what this would look like, in practice, given two theoretical authorities. In this example, in 2019-20 the authorities have the same assessment of need to spend and the same council tax base and levels, resulting in the same AEF. In 2020-21, one authority sees an increase in their tax base while the other sees a decrease. In the methodology where the base year is not rebased, the authority that is above the floor actually ends up with less available funding than the authority that is below the floor. In the methodology where the base year is rebased, both authorities have the same available funding.
10. Another way to look at this is to consider that, while in any one year we need to take account of the tax base of each authority (the settlement year), when looking from one year to the next (the floor consideration), we don't want to make allowances for any changes to tax base. This is because an increase in tax base, while meaning a lower settlement, also means that the authority has a greater tax-raising ability. Similarly, a decrease in tax base will mean a higher settlement, but we don't want to penalise this authority, as they will have a reduced ability to raise council tax.
11. While this methodology was originally developed for consideration of floor funding, presenting the settlement in this way ensures that the like-for-like comparisons in the settlement key briefing tables assume that the tax-raising ability for each authority was the same in both years. This takes any increase or decrease in tax base out of the equation, providing a true 'like-for-like' comparison.

Conclusion

12. The Welsh Government is of the view that rebasing the previous year's settlement using the most up-to-date tax base, when calculating the following year's settlement uplift, is the correct methodology to use, regardless of whether a funding floor is in place. Members are asked to comment on whether they are content with this approach.

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Annex A

Figure 1: Illustration of reasoning behind the rebasing of the settlement base year with the latest tax base when considering a funding floor

2019-20

General Assumptions:

Wales AEF	£30,000,000
Council Tax at Standard Spending	£1,000
Wales tax-setting tax base	10,000
Council Tax Income at Standard Spending	£10,000,000
Wales SSA	£40,000,000

Authority A Authority B

Tax-base (100% and tax-setting)	5,000	5,000
SSA (assume equal)	£20,000,000	£20,000,000
Council Tax Income at Standard Spending	£5,000,000	£5,000,000
AEF	£15,000,000	£15,000,000
Average band D CT	£1,000	£1,000
CT income	£5,000,000	£5,000,000
'Spending Power'	£20,000,000	£20,000,000

2020-21

General Assumptions:

Wales AEF	£30,000,000
Council Tax at Standard Spending	£1,000
Wales tax-setting tax base	10,000
Council Tax Income at Standard Spending	£10,000,000
Wales SSA	£40,000,000

Authority A Authority B

Tax-base (100% and tax-setting)	4,000	6,000
SSA (assume equal)	£20,000,000	£20,000,000
Council Tax Income at Standard Spending	£4,000,000	£6,000,000
AEF	£16,000,000	£14,000,000
Average band D CT	£1,000	£1,000
CT income	£4,000,000	£6,000,000
'Spending Power'	£20,000,000	£20,000,000

Assume a -5% floor without rebasing

	2019-20 AEF	2020-21 AEF	AEF at floor	Change in 2020-21 AEF as result of floor	2020-21 floor-adjusted AEF	2020-21 CT income	Spending power	Authority not on the floor has less spending power, despite their assessment of need to spend being the same
Authority A	£15,000,000	£16,000,000	£14,250,000	£0	£16,000,000	£4,000,000	£20,000,000	
Authority B	£15,000,000	£14,000,000	£14,250,000	£250,000	£14,250,000	£6,000,000	£20,250,000	

Assume a -5% floor with rebasing

	2019-20 AEF	2020-21 AEF	AEF at floor	Change in 2020-21 AEF as result of floor	2020-21 floor-adjusted AEF	2020-21 CT income	Spending power	Both authorities have the same spending power, despite having different tax bases. This is one of the principles of the model as it should equalise for need and RESOURCES
Authority A	£16,000,000	£16,000,000	£15,200,000	£0	£16,000,000	£4,000,000	£20,000,000	
Authority B	£14,000,000	£14,000,000	£13,300,000	£0	£14,000,000	£6,000,000	£20,000,000	