

## ***Distribution Sub-Group (2020) Paper 23 – Equalising for resource in the 2021-22 Settlement***

**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.**

### **Equalising for resource in the 2021-22 Settlement**

#### **Summary**

1. This paper provides an overview for DSG to note the impact of equalising for resources within the settlement through updating the council tax data.

#### **Views sought**

2. For DSG to note the impact on the distribution of the Settlement of using the latest Council tax data in the Settlement model.

#### **Related papers**

3. Distribution Sub-Group (2020) Paper 10 – Council tax and equalising for resource within the settlement.

#### **Background**

4. One of the principles of the settlement is that the funding should equalise for locally generated resources, by recognising the differing ability of councils to raise income through taxing their residents.
5. Local authorities in Wales differ in their capacity to raise council tax because of differences in the number of properties (or taxbase) from one authority to the other i.e. authorities have different number of properties, or properties predominantly in the lower council tax Bands A to C while others have a more even spread of properties.
6. Resource equalisation ensures that those authorities with relatively lower number of properties or property values do not lose out in funding because of their reduced capacity for raising council tax, so they receive more central government support.
7. In recognition that council tax levels differ between authorities, an estimated Wales value is constructed. This ensures that, through resources equalisation, funding is not influenced by the historic discretionary choices authorities have made in setting their council tax levels.
8. As the settlement is published prior to local authorities setting their council tax, the council tax data used always has a time lag (i.e. in 2020-21 settlement 2019-20 council tax data was used).

## **Distribution Sub-Group (2020) Paper 23 – Equalising for resource in the 2021-22 Settlement**

9. As the council tax data is a year behind the settlement year, the formula updates the previous year's actual council tax levels and models an assumed council tax increase for the subsequent year from historic data.
10. This is done to reflect the potential additional income authorities will be able to raise within the settlement year. Therefore this paper shows the impact of updating this data to 2020-21 data, which will be used in the 2021-22 settlement.

### **Analysis**

11. Table 1 shows the latest council tax data, including the model to produce the notional standard council tax for the 2021-22 settlement. Please note this does not include an update to the tax base as this is unavailable until late November / early December.

**Table 1: updating the financial council tax elements of equalising for resource**

<b>2020-21 Tax-Setting Tax Base</b>	<b>1,238,220 (New data, not yet available)</b>		
<b>2020-21 Average Wales Band D:</b>	<b><u>Band D</u></b>		<b><u>Total (£)</u></b>
2020-21 Council tax	1,666.94	x	1,238,220 = 2,064,040,133
less Community council precept	38.15	x	1,238,220 = 47,235,869
less Police precept	274.77	x	1,238,220 = 340,226,114
2020-21 notional standard council tax amount			£2,064,040,133 - £47,235,869 - £340,226,114 = 1,676,578,150
less discretionary non-domestic rate (NNDR) relief	£4,919,813		
2020-21 notional standard council tax amount (excluding NNDR Relief)			£1,676,578,150 - £4,919,813 = 1,671,658,337
3 year average council tax increases (2018-19 to 2020-21)	5.24%		
<b>2021-22 Notional Council tax</b>			£1,597,787,083 * 105.24% = 1,759,253,234
2020-21 100% tax base	<b>1,252,626 (New data, not yet available)</b>		
council tax at standard spending = 2020-21 notional standard council tax per 100% tax base			£1,759,253,234 / 1,252,626 = £1,404.45

12. Through updating the council tax levels to the 2020-21 values, the notional council tax available to local authorities in 2020-21 was [£1.672b](#).
13. Within the 2020-21 settlement, it was estimated that £1.673b (or £1.5m higher than the actual) would have been available to raise through council tax. This was because last year's council tax increase assumption was higher than the actual increase.
14. This year the council tax increase assumption is [5.24%](#), which is based on average increase over the last 3 years. By incorporating this, the notional council tax amount roughly stands at [£1.759b](#) for 2021-22 (or £86.1m more than the previous year). This value is subject to change if the taxbase (which has yet to be updated) increases or decreases.

## **Distribution Sub-Group (2020) Paper 23 – Equalising for resource in the 2021-22 Settlement**

15. Some of you will notice that although the assumption is at 5.24%, comparing this year's council tax per 100% tax base of [£1,404.45](#) to last year's (£1,335.76) gives a difference of 5.14% (which is lower than assumption).
16. This is because last year's council tax increase assumption was higher than the actual increase. So updating the model to reflect the actual council tax levels for 2020-21 dampens the assumed increase.

### **Financial impact**

17. As previously discussed, this is an element of the settlement model that has previously not attracted much attention and therefore a lack of understanding has arisen, even amongst DSG members.
18. This section looks at the financial impact of the update of council tax data through using the 2020-21 settlement.

**Table 2: Exemplification of 2020-21 AEF when updating the equalising for resource element of the model using 2020-21 data**

	Actual Settlement	Updated equalising for resource	Difference	% change
Isle of Anglesey	101,005	100,881	-124	-0.1%
Gwynedd	187,579	187,707	128	0.1%
Conwy	161,398	161,073	-325	-0.2%
Denbighshire	151,932	152,021	89	0.1%
Flintshire	199,386	198,993	-393	-0.2%
Wrexham	184,296	184,192	-104	-0.1%
Powys	184,289	183,750	-539	-0.3%
Ceredigion	107,646	107,548	-98	-0.1%
Pembrokeshire	172,204	171,800	-405	-0.2%
Carmarthenshire	274,159	274,219	60	0.0%
Swansea	339,381	339,524	143	0.0%
Neath Port Talbot	226,762	227,386	624	0.3%
Bridgend	203,127	203,169	41	0.0%
The Vale Of Glamorgan	161,021	160,220	-800	-0.5%
Rhondda Cynon Taf	388,666	390,061	1,395	0.4%
Merthyr Tydfil	96,810	97,178	368	0.4%
Caerphilly	283,367	284,205	838	0.3%
Blaenau Gwent	116,063	116,527	463	0.4%
Torfaen	140,467	140,711	244	0.2%
Monmouthshire	97,760	96,813	-947	-1.0%
Newport	228,077	228,191	113	0.0%
Cardiff	469,047	468,277	-770	-0.2%
<b>Total Unitary Authorities</b>	<b>4,474,444</b>	<b>4,474,444</b>	<b>0.0</b>	<b>0.0%</b>

**Distribution Sub-Group (2020) Paper 23 – Equalising for resource in the 2021-22 Settlement**

19. As previously noted this table is subject to change, once the 2021-22 tax base data becomes available, i.e. if an authority's tax base increases or decreases relative to the Wales average.
20. Table 2 shows that Rhondda Cynon Taf, Caerphilly and Neath Port Talbot have the largest financial increases (£1.395m, £0.838m and £0.624m respectively). Whilst Monmouthshire, the Vale of Glamorgan and Cardiff see the largest decreases (down £0.947m, £0.800m and £0.770m respectively).
21. The magnitude of an authority's change of AEF depends on their council tax income at standard spending (CTSS) as a proportion of their SSA value. For example, in the 2020-21 settlement, the model assumed that Monmouthshire would be able raise 39% of their SSA from notional council tax, whilst Blaenau Gwent could only raise 20.8%).
22. Table 3 shows council tax at standard spending as a percentage of each authority's total SSA, for the 2020-21 settlement and when exemplified with the updated council tax data.

**Table 3: council tax income at standard spending as a percentage of each authority's total SSA by actual and updated values**

	SSA			CTSS as a % of SSA			% change - Wales average
	Actual	Updated	Difference	Actual	Updated	% change	
Isle of Anglesey	142,316	144,316	2,000	29.0%	30.1%	1.1%	0.1%
Gwynedd	254,380	257,943	3,563	26.3%	27.2%	1.0%	0.0%
Conwy	229,516	232,694	3,178	29.7%	30.8%	1.1%	0.1%
Denbighshire	205,890	208,754	2,864	26.2%	27.2%	1.0%	0.0%
Flintshire	286,087	290,152	4,065	30.3%	31.4%	1.1%	0.1%
Wrexham	256,883	260,512	3,629	28.3%	29.3%	1.0%	0.0%
Powys	267,839	271,598	3,758	31.2%	32.3%	1.2%	0.1%
Ceredigion	150,200	152,291	2,090	28.3%	29.4%	1.0%	0.0%
Pembrokeshire	247,581	251,053	3,472	30.4%	31.6%	1.1%	0.1%
Carmarthenshire	375,549	380,823	5,274	27.0%	28.0%	1.0%	0.0%
Swansea	463,934	470,482	6,549	26.8%	27.8%	1.0%	0.0%
Neath Port Talbot	292,996	297,026	4,030	22.6%	23.4%	0.8%	-0.2%
Bridgend	277,406	281,268	3,861	26.8%	27.8%	1.0%	0.0%
The Vale of Glamorgan	244,317	247,800	3,483	34.1%	35.3%	1.2%	0.2%
Rhondda Cynon Taf	494,615	501,458	6,843	21.4%	22.2%	0.8%	-0.2%
Merthyr Tydfil	122,423	124,108	1,685	20.9%	21.7%	0.8%	-0.2%
Caerphilly	366,320	371,424	5,104	22.6%	23.5%	0.8%	-0.2%
Blaenau Gwent	145,116	147,073	1,957	20.0%	20.8%	0.7%	-0.3%
Torfaen	186,317	188,919	2,602	24.6%	25.5%	0.9%	-0.1%
Monmouthshire	160,273	162,541	2,268	39.0%	40.4%	1.4%	0.4%
Newport	309,475	313,775	4,300	26.3%	27.3%	1.0%	0.0%
Cardiff	668,213	677,686	9,473	29.8%	30.9%	1.1%	0.1%
<b>Wales</b>	<b>6,147,646</b>	<b>6,233,697</b>	<b>86,051</b>	<b>27.2%</b>	<b>28.2%</b>	<b>1.0%</b>	

***Distribution Sub-Group (2020) Paper 23 – Equalising for resource in the 2021-22 Settlement***

23. Through using the latest council tax data and projecting council tax income for 2021-22 council tax levels, the notional council tax element of the model has increased by £86.1m on the previous year.
24. As this exemplifies the latest data based on the 2020-21 settlement, AEF stays the same and therefore SSA would change in line with the notional council tax.
25. As the council tax amount has increased, all authorities will see an increase in their council tax as a percentage of their SSA (given the tax base stays constant in this example).
26. For example Monmouthshire's percentage share of CTSS increases the most (from 39.0% to 40.4%), followed by the Vale of Glamorgan (up 1.2 percentage points (pp)). The authorities that increase the least are Blaenau Gwent (0.7 pp), then Merthyr Tydfil, Rhondda Cynon Taf and Caerphilly (0.8 pp).
27. However, the settlement is calculated based on relative need. By subtracting the Wales average (1.0%) from each authority we would broadly see the relative change between authorities.
28. In doing so, Monmouthshire and the Vale of Glamorgan are above zero, at 0.4pp and 0.2pp above the Wales average respectively. Whereas Blaenau Gwent is 0.3pp below the Welsh average and Merthyr Tydfil, Rhondda Cynon Taf and Caerphilly are 0.2pp below.
29. This element of the settlement model identifies that Monmouthshire and the Vale have the ability to raise more council tax (on a consistent basis) relative to Blaenau Gwent etc.
30. Therefore, through updating this element of the model those authorities with higher tax bases (like Monmouthshire and the Vale), now have a greater percentage share of their SSA distribution though Council tax at standard spending.
31. As  $SSA = AEF + CTSS$ , those authorities that now have a greater share of council tax will therefore have a lower share of AEF ( $AEF = SSA - CTSS$ ). This can be used to explain the decrease seen in their AEF funding as shown in table 2.
32. This exemplification only looks at updating the council tax element of the model. As expressed in the previous paper, the overall year-on-year financial impact are also dependent on the relative change to the adjusted AEF, from the previous year.
33. Previous analysis inferred that generally, when AEF increases greater (or equal) than the change to notional council tax, then authorities with relatively higher tax bases will gain relative to the average AEF.

***Distribution Sub-Group (2020) Paper 23 – Equalising for resource in the  
2021-22 Settlement***

**Conclusion**

DSG Members are asked to note this paper and agree to the update of the equalising for resource element of the settlement model.

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