

Distribution Sub-Group (2020) Paper 09 – Council tax uplift

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Council tax uplift

Summary

1. This paper looks at the rationale and practicalities of using a three year council tax assumption used to estimate Council Tax Income at Standard Spending (CTSS) in the subsequent settlement funding formula.

Views sought

2. DSG members are asked to assess whether it is appropriate to continue with the three year average council tax increase assumption used in the formula and, if not, to recommend a method for determining what other assumption should be.

Previous papers

3. Distribution Sub-Group (2018) - Paper 03 – Treatment of council tax in the settlement

Background

4. In the settlement calculations, total Standard Spending Assessment (SSA) for Wales is calculated by adding total distributable Aggregate External Finance (AEF) and Council Tax Income at Standard Spending (CTSS).
5. The CTSS is included and derived so that the settlement funding should equalise for locally generated resources, by recognising the relative ability of councils to raise income through taxing their residents.
6. This is because local authorities in Wales differ in their capacity to raise council tax because of differences in their taxbase from one authority to the other i.e. authorities have different numbers of properties and some authorities have properties predominantly in council tax Bands A to C while others have a more even spread of properties.
7. Resource equalisation ensures that those authorities with relatively fewer properties and lower property values do not lose out in funding because of their reduced capacity for raising council tax, so they receive more central government support.

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8. To account for the varying council tax levels between authorities, a notional Wales average band D council tax level is used, to ensure that the settlement funding does not reward or penalise an authority for the local discretionary choices they have made in setting their council tax level.
9. In creating the notional Wales average band D council tax level, the settlement model requires to make an assumption on the change in council tax that will happen in the settlement year.
10. This was agreed by DSG (2018 – paper 3) to be based on the change in average band D at a Wales level over the past three years compared to the historic method of being fixed at a 2.5% increase.
11. DSG at the January 2020 meeting, asked if this was still the most appropriate method going forward, given the large financial impact this has on settlement allocations.

Analysis

12. As outlined the uplift assumption is used to try and model the actual Welsh council tax level for the settlement year, to reflect a consistent level of potential income available.
13. Investigating the difference between the actual council tax increase (*available after the final settlement allocations*) and the assumptions used, shows that over the past four years of available data the actual increases in the settlement have been greater than the assumptions used.
14. As the previous year's actual council tax levels are updated in the model yearly, any under/ over estimation would be rectified in the subsequent settlement year.
15. Historically using the previous three year council tax change, demonstrates a closer predictor of the subsequent council tax increase and was the rationale for using this method from the 2019-20 settlement.

Table 1: The difference between actual council tax uplift and the council tax uplift assumption.

	2016-17	2017-18	2018-19	2019-20	2020-21
Council tax uplift (1)	3.63%	3.04%	4.94%	6.16%	N/A
Council tax assumption (2)	2.5%	2.5%	2.5%	3.87%	4.72%
Council tax 3 year average (3)	3.83%	4.07%	3.68%	3.87%	4.72%
Difference (1) - (2)	1.1%	0.5%	2.4%	2.3%	N/A
Difference (1) - (3)	-0.2%	-1.0%	1.3%	2.3%	N/A

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16. One other potential mechanism for the council tax assumption uplift would be to link the Wales level budget requirement to the year on year change in AEF to produce the additional council tax required, this would be allow us to calculate the assumed increase in council tax.
17. To do this in practice would require local government to provide Welsh government an earlier estimation of their overall LA Welsh budget requirement figure. This could be used in calculate the proxy for council tax increases in the subsequent financial year by removing the known change in AEF.
18. As it is not prudential for an authority to set their budgets prior to knowing their funding level council tax prior to receiving its budget, it is unlikely that this would be a mechanism that is able to be used.
19. Another issue with this method is that it could cause some distribution shift between the provisional and final settlement as any change in funding would result in the council tax assumption being changed.

Conclusion

20. Members are asked to consider other methods possible and whether the three year average provides the simplest and most transparent mechanism to model the increase in subsequent years' council tax.
21. Given the current complexity surrounding the construction of the council tax within the settlement, and that further information would require to be collected by councils then it might be simpler to continue using a three year average.

**Local Government Finance and Workforce Partnerships Division
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