

Notional council tax and equalising for resource within the settlement

This document explains the derivation of the notional council tax within the settlement, and how changes to the principle of equalising for resources affects authorities' settlement allocations.

Why do we consider council tax within the settlement?

- 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.
- Local authorities in Wales differ in their capacity to raise council tax because of differences in taxbase from one authority to the other i.e. some authorities have a different number of properties than others, or properties predominantly in council tax Bands A to C while others have a more even spread of properties.
- 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.
- In recognition that council tax levels differ between authorities, a Wales level notional value is constructed. This ensures that, through resources equalisation, funding is not influenced by the discretionary choices authorities have made in setting their council tax levels.

The calculation for the 2020-21 settlement are as follows

2020-21 Tax-Setting Tax Base	1,238,220			
2019-20 Average Wales Band D:	<u>Band D</u>			<u>Total (£)</u>
2019-20 Council tax	1,590.85	x	1,238,220	= 1,969,822,478
less Community council precept	36.20	x	1,238,220	= 44,821,862
less Police precept	260.44	x	1,238,220	= 322,476,352
2019-20 notional standard council tax amount	£1,969,822,478 - £44,821,862 - £322,476,352			= 1,602,524,264
less discretionary non-domestic rate (NNDR) relief	£4,737,181			
2019-20 notional standard council tax amount (excluding NNDR Relief)	£1,602,524,264 - £4,737,181			= 1,597,787,083
3 year average council tax increases (2017-18 to 2019-20)	4.72%			
2020-21 Notional Council tax	£1,597,787,083 * 104.72%			= 1,673,202,633
2020-21 100% tax base	1,252,626			
council tax at standard spending = 2020-21 notional standard council tax per 100% tax base	£1,673,202,633 / 1,252,626			= £1,335.76

- The council tax at standard spending is built up at an all Wales level. The first step is to multiply the latest council tax level (2019-20), by the latest tax setting tax base (the number of band D equivalent chargeable dwellings; 2020-21), all at a Wales level.
 - This calculation produces an estimated amount of income that can be raised through council tax (using the previous year's council tax levels and the settlement year's tax base).
 - As the settlement only distributes funding across local authorities, the *Community Council* and *Police* precepts elements are removed from the calculation to ensure that only council tax raised by local authorities is considered.
 - The discretionary non-domestic rate (NDR) relief provided in the prior year is then removed, as this is treated as income foregone.
 - This now equates to a notional standard council tax, at a Wales unitary authority level for 2019-20, but taking into account the 2020-21 tax base.
 - As the council tax levels are a year behind the settlement year, it is uplifted to try and reflect the additional income raised in the settlement year. DSG have agreed that this uplift should be based on the latest three year average council tax percentage increase, to try and model the change in the council tax in the subsequent year.
 - This produces a notional Wales council tax income for the 2020-21.
 - At the start of the settlement calculation, the notional standard council tax is considered at a Wales level and apportioned across the services areas within the formula. As council tax is up to the discretion of each authority, at the end of the calculation this notional standard council tax must be removed from across all 22 authorities.
 - In practice this is done by dividing the Wales notional council tax (£1,673,202,633) by the total 100% tax base¹ (the number of dwellings = 1,252,626) for Wales.
 - This produces *council tax at standard spending* or, in simple terms, an average council tax level for Wales. As shown in table 1, for the 2020-21 Final settlement this value is £1,335.76. This is not a guideline for councils, but a mechanism within the settlement formula to ensure a consistent level is used for all 22 local authorities when equalising for resources.
 - Using authorities' actual council tax levels would result in authorities being penalised or rewarded through the settlement for the discretionary choices that they make regarding their council tax levels.
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Equalising for resource

Table 2: Equalising for resource within the settlement, 2020-21

Unitary Authority	Council tax at standard spending (£)		Tax base		Notional Council tax income ¹ (£000)	Standard Spending Assessment (SSA) (£000)	Council tax proportion of SSA	Aggregate External Finance (AEF) (£000)
Isle of Anglesey	1,335.76	x	30,927	=	41,311	142,316	29.0%	101,005
Gwynedd	1,335.76	x	50,010	=	66,801	254,380	26.3%	187,579
Conwy	1,335.76	x	50,996	=	68,118	229,516	29.7%	161,398
Denbighshire	1,335.76	x	40,395	=	53,958	205,890	26.2%	151,932
Flintshire	1,335.76	x	64,907	=	86,700	286,087	30.3%	199,386
Wrexham	1,335.76	x	54,342	=	72,587	256,883	28.3%	184,296
Powys	1,335.76	x	62,549	=	83,551	267,839	31.2%	184,289
Ceredigion	1,335.76	x	31,858	=	42,554	150,200	28.3%	107,646
Pembrokeshire	1,335.76	x	56,430	=	75,376	247,581	30.4%	172,204
Carmarthenshire	1,335.76	x	75,904	=	101,390	375,549	27.0%	274,159
Swansea	1,335.76	x	93,246	=	124,553	463,934	26.8%	339,381
Neath Port Talbot	1,335.76	x	49,586	=	66,234	292,996	22.6%	226,762
Bridgend	1,335.76	x	55,608	=	74,279	277,406	26.8%	203,127
The Vale of Glamorgan	1,335.76	x	62,359	=	83,296	244,317	34.1%	161,021
Rhondda Cynon Taf	1,335.76	x	79,317	=	105,949	494,615	21.4%	388,666
Merthyr Tydfil	1,335.76	x	19,175	=	25,613	122,423	20.9%	96,810
Caerphilly	1,335.76	x	62,102	=	82,953	366,320	22.6%	283,367
Blaenau Gwent	1,335.76	x	21,750	=	29,053	145,116	20.0%	116,063
Torfaen	1,335.76	x	34,325	=	45,850	186,317	24.6%	140,467
Monmouthshire	1,335.76	x	46,800	=	62,513	160,273	39.0%	97,760
Newport	1,335.76	x	60,938	=	81,398	309,475	26.3%	228,077
Cardiff	1,335.76	x	149,103	=	199,166	668,213	29.8%	469,047
Total unitary authorities					1,673,203	6,147,646		4,474,444

1. 100% taxbase multiplied by council tax at standard spending (£1,335.76).

- As explained above, *council tax at standard spending* is a proxy for the average Welsh council tax in the settlement year (2020-21). To consider each councils' ability to raise income through taxing their residents, for equalisation of resources, we must consider the taxbase of each authority.
- To calculate the notional amount of income an authority can raise, in a consistent manner, the *council tax at standard spending* is multiplied by each authority's 100% taxbase (as shown in the table above).
- This demonstrates the difference in the relative ability to raise council tax across authorities. For example in 2020-21 Cardiff has a taxbase of 149k, whilst Merthyr Tydfil has a tax base of 19k.
- Therefore Cardiff is modelled as being able to generate more income through taxing its residents than Merthyr Tydfil (£199.2m vs £25.6m, when council tax levels are treated in a consistent manner).
- *Notional council tax income* is removed from each authority's respective Standard Spending Assessment (SSA) values to arrive at Aggregate External Finance (AEF).

- Therefore an authority's AEF allocation depends on the proportion of their council tax from within their SSA value.
- These proportions vary between authorities. For example, in 2020-21, Monmouthshire's *notional council tax* is assumed to be 39% of its SSA amount, this reflects its relatively high taxbase. In contrast, Blaenau Gwent's *Notional council tax* is 20% of its SSA value.

Financial impact 2020-21

- The year-on-year financial impact of *equalising for resources* is dependent on the extent of relative changes in *notional council tax* and the *adjusted AEF*, from the previous year.
- The component of change table from the key briefing tables, published alongside the settlement, can partially aid understanding this element of the formula. A summarised version for *equalising for resource* and from adjusting AEF can be found in annex A of this document.
- This table illustrates the impact of updating the adjusted AEF value (column D) and the "*equalising for resource*" column (column E; previously labelled "notional council tax") in isolation, on the previous year.
- Comparing the percentage changes in the adjusted AEF (column F), shows Monmouthshire, the Vale of Glamorgan and Powys increasing the most (5.3%, 4.8% and 4.8%) from this change. Blaenau Gwent, Neath Port Talbot and Rhondda Cynon Taf see the smallest increase from this change (3.9%, 4.0% and 4.0%).
- Conversely, investigating the percentage change from *equalising for resource* (column G): Monmouthshire, the Vale of Glamorgan and Powys decrease the most (-1.5%, -0.7% and -0.5%), and Blaenau Gwent, Merthyr Tydfil and Rhondda Cynon Taf increase the most (all 0.6%).
- These two examples can be considered as:
 - Column F: AEF increasing, notional council tax unchanged;
 - Column G: AEF unchanged, notional council tax increasing;
- *The equalising for resource* principle is interdependent on the level of AEF, therefore to fully consider the relationship further scenarios are required. Annex B provides some of the possible permutations of the changing these elements individually and simultaneously by different magnitudes. It also exemplifies the impact on each authority's allocations.

- To Note: the changes exemplified in annex A are hypothetical changes to help illustrate the workings of this part of the formula, not any indication of future changes
- From investigating the permutations in Annex B, we can infer that generally if the percentage increase in AEF is greater or equal to the percentage change in *notional council tax income* then authorities with relatively higher tax bases will gain relative to the average AEF, through the *equalising for resource principle*.
- On the contrary, where the percentage changes to AEF is less than the notional council tax, then authorities with relatively lower tax bases will gain more relative to the average AEF through the equalising for resource principle.
- Given the magnitude of the difference in the 2020-21 settlement: notional council tax income increased by 8.2% (Council Tax at Standard Spending increase 7.1%) compared to an increase of 4.3% in AEF, this has resulted in some distributional changes.
- Using this logic would also aid individuals in explaining some of their historic settlements allocations where, predominately over the last few years, the percentage increase in AEF has been less than the percentage change in notional council tax income.

Comparing over time

- It is not recommended that users compare the latest notional standard council tax amount (£1,335.76) to the historic equivalent value (i.e. 2019-20 = £1,246.94), to assume the assumption uplift used in the settlement.
- By comparing these figures users could incorrectly interpret the difference to be the council tax assumption within the settlement i.e. a 7.1% increase whilst in reality the actual assumption was 4.72%.
- The difference between the actual assumption (4.72%) and the historic notional standard council tax difference (7.1%) originate from an underestimation of the council tax assumption in the previous year (2019-20).
- In the 2019-20 settlement the council tax assumption was 3.87%, the actual council tax increase was 6.16%. So the 7.1% would also include the difference between the actual council tax and the council tax assumption used (6.16% - 3.87% = 2.29%).
- There will also be differences due to changing the tax bases and discretionary NNDR discounts each year but to a lesser extent in 2020-21.

- All the data in red in the table 1 are available on the Welsh government's data dissemination website [StatsWales](#), where users can replicate this analysis

Glossary

Tax base: This is the number of Band D equivalent dwellings in a local authority area. To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums and exemptions. An authority's tax base is taken into account when it calculates its council tax.

Average band D: This converts all dwellings to band D by multiplying each band by its proportion relative to Band D (from 6/9 for Band A to 21/9 for Band I)

¹100% Tax base: While the tax-setting taxbase is used to build up the notional council tax income at a Wales level, the 100% taxbase (i.e. making no adjustment for a collection rate) is used when reversing out the notional council tax from the model, so as to make no allowance for local variations in collection rates.

Table 3: Summarised component of change table, for equalising for resource and changing the funding amount

Unitary Authority	AEF 19/20 & Floor funding (A)	Change in funding (2020-21) (B)	Transfers at 2019-20 values (C)	Adjusted AEF (D) = (B) + (C)	Equalising for resource (E)	% change from adjusted AEF (F) = (D) / (A)	% change from equalising for resource (G) = (D) / (A)
Isle of Anglesey	95,791	5,594	-1,208	4,386	-207	4.6%	-0.2%
Gwynedd	176,552	9,926	-2,086	7,840	109	4.4%	0.1%
Conwy	154,192	8,891	-1,839	7,052	-477	4.6%	-0.3%
Denbighshire	143,637	8,004	-1,794	6,210	110	4.3%	0.1%
Flintshire	188,980	11,383	-2,668	8,715	-614	4.6%	-0.3%
Wrexham	175,252	10,197	-2,248	7,949	-174	4.5%	-0.1%
Powys	174,291	10,442	-2,159	8,283	-867	4.8%	-0.5%
Ceredigion	102,091	5,845	-1,164	4,682	-147	4.6%	-0.1%
Pembrokeshire	162,448	9,677	-2,073	7,604	-579	4.7%	-0.4%
Carmarthenshire	260,388	14,718	-3,271	11,446	165	4.4%	0.1%
Swansea	322,211	18,333	-3,983	14,350	272	4.5%	0.1%
Neath Port Talbot	214,796	11,251	-2,635	8,616	944	4.0%	0.4%
Bridgend	191,807	10,760	-2,442	8,318	71	4.3%	0.0%
The Vale of Glamorgan	152,070	9,692	-2,325	7,367	-1,125	4.8%	-0.7%
Rhondda Cynon Taf	367,339	19,127	-4,358	14,768	2,029	4.0%	0.6%
Merthyr Tydfil	91,304	4,690	-1,021	3,669	533	4.0%	0.6%
Caerphilly	268,614	14,319	-3,283	11,036	1,242	4.1%	0.5%
Blaenau Gwent	110,815	5,490	-1,121	4,368	712	3.9%	0.6%
Torfaen	132,650	7,268	-1,665	5,603	354	4.2%	0.3%
Monmouthshire	93,229	6,351	-1,375	4,975	-1,417	5.3%	-1.5%
Newport	214,343	11,966	-2,722	9,244	168	4.3%	0.1%
Cardiff	444,629	26,560	-5,741	20,820	-1,102	4.7%	-0.2%
Total unitary authorities	4,237,431	240,483	-53,181	187,302	0	4.4%	0.0%

Table 4: Exemplification of interdependences of changing AEF and Notional council tax (NCT)

	AEF =0, NCT >0	AEF =0, NCT <0	AEF >0, NCT =0	AEF <0, NCT =0	AEF > NCT	AEF < NCT	AEF = NCT (+)	AEF > NCT (1% difference)	-AEF < - NCT
Isle of Anglesey	-0.2%	0.2%	0.1%	-0.1%	0.1%	-0.1%	0.0%	0.1%	-0.1%
Gwynedd	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.2%
Conwy	-0.3%	0.3%	0.1%	-0.1%	0.0%	-0.2%	-0.1%	-0.1%	0.0%
Denbighshire	0.1%	-0.1%	-0.1%	0.1%	-0.1%	0.0%	0.0%	-0.1%	-0.1%
Flintshire	-0.3%	0.3%	0.3%	-0.3%	0.3%	0.0%	0.1%	0.2%	-0.2%
Wrexham	-0.1%	0.1%	0.1%	-0.1%	0.1%	0.0%	0.1%	0.1%	-0.2%
Powys	-0.4%	0.4%	0.3%	-0.3%	0.2%	-0.2%	0.0%	0.1%	0.0%
Ceredigion	-0.1%	0.1%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%
Pembrokeshire	-0.3%	0.3%	0.2%	-0.2%	0.2%	-0.1%	0.0%	0.1%	-0.1%
Carmarthenshire	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.2%
Swansea	0.1%	-0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	-0.2%
Neath Port Talbot	0.4%	-0.4%	-0.3%	0.3%	-0.3%	0.1%	-0.1%	-0.2%	-0.2%
Bridgend	0.0%	0.0%	-0.1%	0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%
The Vale Of Glamorgan	-0.6%	0.6%	0.5%	-0.5%	0.5%	-0.1%	0.1%	0.3%	0.0%
Rhondda Cynon Taf	0.5%	-0.5%	-0.4%	0.4%	-0.3%	0.1%	-0.1%	-0.2%	-0.3%
Merthyr Tydfil	0.5%	-0.5%	-0.4%	0.4%	-0.4%	0.1%	-0.1%	-0.2%	-0.2%
Caerphilly	0.4%	-0.4%	-0.3%	0.3%	-0.2%	0.1%	0.0%	-0.1%	-0.3%
Blaenau Gwent	0.6%	-0.6%	-0.5%	0.5%	-0.6%	0.0%	-0.2%	-0.3%	-0.1%
Torfaen	0.2%	-0.2%	-0.2%	0.2%	-0.1%	0.1%	0.0%	0.0%	-0.2%
Monmouthshire	-1.3%	1.3%	0.9%	-0.9%	0.7%	-0.4%	0.1%	0.3%	0.3%
Newport	0.1%	-0.1%	-0.1%	0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%
Cardiff	-0.2%	0.2%	0.2%	-0.2%	0.2%	0.0%	0.1%	0.1%	-0.2%
Total Unitary Authorities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.2%
Change in Distributable AEF	0.0%	0.0%	4.3%	-4.3%	7.2%	4.3%	4.3%	5.3%	-4.3%
Change in Notional Council tax	7.2%	-7.2%	0.0%	0.0%	4.3%	7.2%	4.3%	4.3%	-7.2%