

Local government revenue and capital settlement

Background information for
standard spending assessments
2021-22

SUMMARY INFORMATION FOR STANDARD SPENDING ASSESSMENTS 2021-22

Introduction

The material contained in this publication is a collection of tables and information intended for use as general background to the calculation of Standard Spending Assessments (SSAs) for 2021-22. It is a statistical companion to the Local Government Finance Reports 2021-22. It provides general context on the calculation of SSAs for unitary authorities and police forces in Wales and detailed information on the approach to calculating SSAs for unitary authorities.

It is important to understand that this compendium shows individual unitary authority SSAs broken down into service categories. This breakdown is solely for the purpose of calculating the total SSA. The ability of unitary authorities and police bodies to set their own spending priorities remains an important part of the Welsh Revenue Support Grant (RSG) distribution system. Therefore, the service IBAs shown in this publication are not intended for use in determining individual authorities' budgeted expenditure on particular services.

Most of the figures are rounded. Therefore, the sums and calculations shown may not always appear to equate exactly with the figures in the tables. The calculations in the SSA models use data that are mainly unrounded.

Background

The data used to calculate the distribution of SSA across the service areas are collected from various sources, mostly on an annual basis. The exceptions are the settlement and dispersion data, which are based on the 1991 and 2001 Censuses and selected indicators derived from the 2001 and 2011 Censuses. Other data are collected directly from authorities, including numbers of pupils, planning applications, street lighting units, lengths of road, lengths of coastline, homelessness and housing data. Data on the numbers of dwellings are provided by the Valuation Office Agency along with food and trading premises data. Population projection figures for local authorities are prepared by the Welsh Government Knowledge and Analytical Services Division. In a small number of cases the actual, or best estimate of expenditure on a service is used, where the expenditure is predetermined and is not directly under the control of authorities. Examples of this are levies for drainage and National Parks.

The formulae for all services were reviewed ahead of the 2001-02 Settlement following recommendations made by an independent review undertaken by Swansea University and Pion Economics. The recommendations were incorporated into the 2001-02 and subsequent settlements as the necessary analyses were completed, through the mechanism of the Distribution Sub Group (DSG).

DSG is a technical working group under the Partnership Council for Wales. Its members include Welsh Government officials, local government officials selected by the Welsh Local Government Association (WLGA) and independent experts. Each year, DSG follows an agreed remit and work programme that looks at certain sectors of the Settlement as well as areas of specific interest, for example distributional matters associated with specific grants that are being considered for transfer into the RSG.

BACKGROUND GUIDE TO STANDARD SPENDING ASSESSMENTS

Introduction

1. Standard Spending Assessments are intended to reflect variations in the need to spend which might be expected if all authorities responded in a similar way to the demand for services in their area. This is the mechanism for distributing Revenue Support Grant (RSG) to unitary authority and police forces which would enable them to charge the same council tax for the provision of a similar standard of service. The following deals with the methodology for unitary authorities but similar principles apply to the distribution of funding for police forces.

SSAs and Budgets

2. At the all-Wales level, the total of SSAs is the same as the total of assumed budgets for Welsh authorities. This means that the overall amount is influenced by decisions on the underlying increase in funding from central government and the actual amount assumed raised through council tax. The actual budget for an authority may vary above or below its SSA as decisions about the levels of service provided are matters for each authority.

Funding of SSA

3. SSA funding is the sum of three elements.

$$\text{SSA} = \text{NDR} + \text{CT} + \text{RSG}$$

NDR is an authority's allocation of redistributed non-domestic rates. In Wales, this is based on the authority's proportion of the population aged 18 and over.

CT is the total notional council tax income based on a standard council tax figure multiplied by the number of dwellings within the authority. The standard council tax figure at Band D is the same for all authorities and is referred to as the **Council Tax for Standard Spending (CTSS)**. It is calculated at an all-Wales level by taking the difference between aggregate SSAs and the aggregate available for distribution for RSG and NDR, divided by the number of dwellings in Wales. The number of dwellings used is referred to as the **taxbase** and is effectively the number of Band D equivalent dwellings within the authority which are liable for council tax adjusted to take account of the number of properties in each council tax band. The figure is presented in terms of the number of council tax Band D properties. The taxbase therefore varies between authorities depending on the number and value of properties in each area. **CTSS** is a notional figure because all local authorities budget to collect less council tax than could be collected from their full taxbase and because authorities spend above or below SSA. Spending above SSA is funded wholly from council tax and other local sources of income.

RSG is a "balancing" sum, which tops up the amounts available from NDR and CT and enables an authority to spend at its SSA.

Individual SSA Components

4. For the purpose of calculating individual SSA allocations, local government net revenue spending is broken down into 53 notional service areas. A separate method of distribution

is determined for each of these service areas to distribute the service total across authorities. The distribution methods fall into two categories:

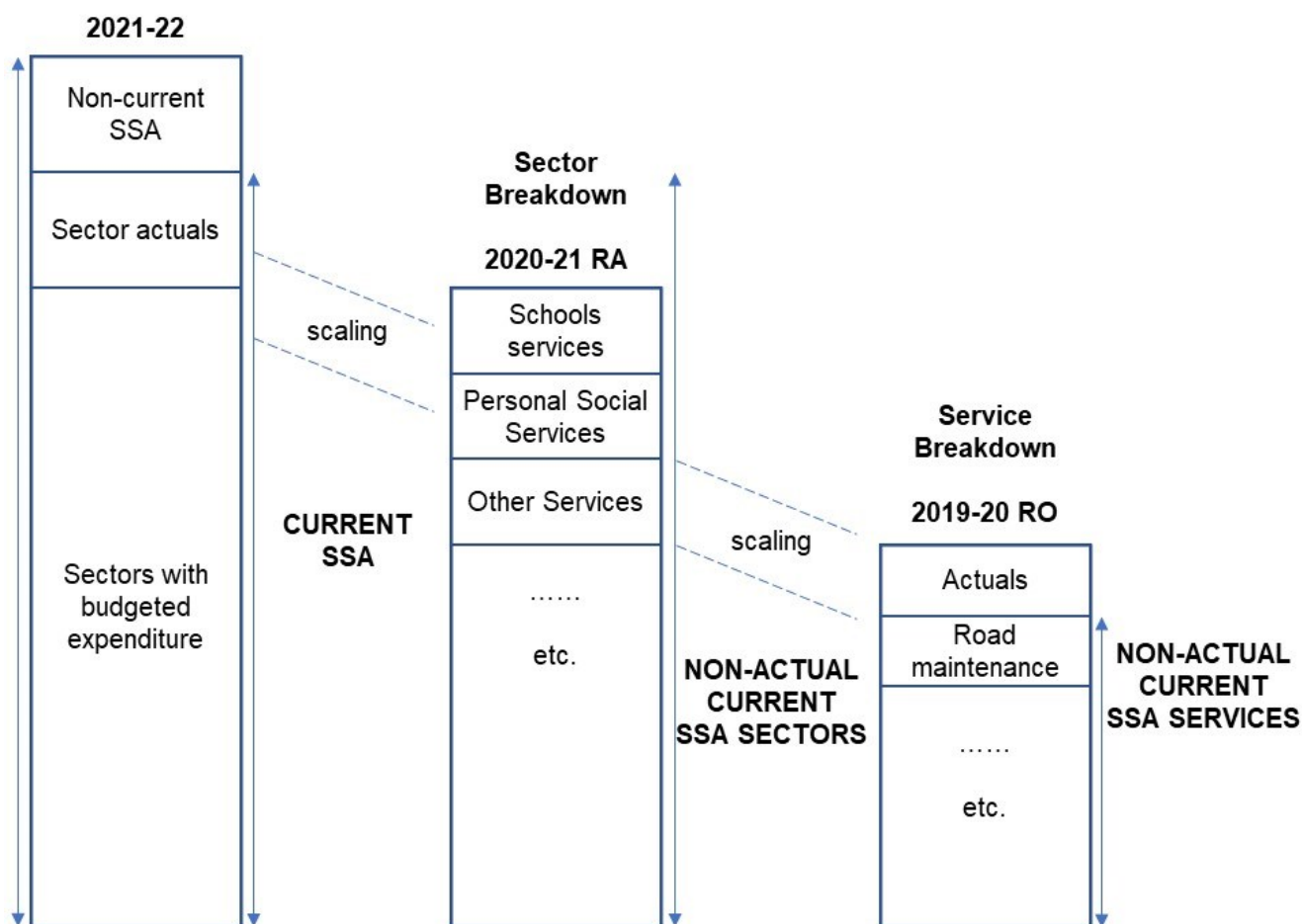
- Formula based on indicators of need
- Distribution based on actual expenditure or estimates of expenditure.

5. All the components are “unhypothecated” – they are notional figures which serve as building blocks for the overall SSA: **they do not represent spending targets for individual services and are not meant to be prescriptive in any way.**

Defining Service Totals

6. The total amount available for distribution as SSA is divided into two elements:
- *current expenditure* – the notional amount available for spending on current revenue services, e.g. teaching costs
 - *non-current expenditure* – the notional amount available for financing debt and other non-current components. In 2004-05, the system of credit approvals was replaced by the prudential borrowing system.
7. The totals for the non-current components are calculated at the all-Wales level outside the SSA formula and are based on the amounts authorities have borrowed in the past plus any new debt. The total for current expenditure (current SSA) is calculated by subtracting this from the overall total. The services that make up current SSA are termed ‘current services’.
8. Of the current SSA, there are some sector elements where the sector total is prescribed, such as the Council Tax Reduction Schemes and Deprivation Grant. These are known as sector actuals and are subtracted from current SSA before the Revenue Account (RA) data is used to derive the remaining sector totals. The 2021-22 settlement calculations used the 2020-21 Revenue Account data.
9. Service totals within each sector for remaining current services are derived from the latest available outturn expenditure data. The 2021-22 settlement calculations used the 2019-20 outturn expenditure data.
10. Some local authority functions, for instance those that have existed for less than two years, do not have relevant outturn expenditure data. The services relating to these functions have defined totals, which are fed into the SSA calculation and are known as service actuals. Apart from this, they are treated in the same way as other services.
11. The totals for service actuals are subtracted from the total for the relevant current SSA sector. The remaining amount is distributed amongst the other services depending on their proportion of the outturn. Figure 1 illustrates the breakdown of total and current SSA.
12. The service-based approach minimises the effect of individual authorities’ spending decisions on the distribution of SSA. Each service is only a part of the final SSA total and, for each service, each unitary authority’s element is determined purely in terms of a need indicator.

Figure 1: Breakdown of total and current SSA for 2021-22



Service expenditure totals are scaled to ensure that their sum is equal to the total for the Settlement year.

Distribution using a formula based on indicators of needs

13. Most services are distributed on the basis of a formula containing indicators of need. Indicators of need are used as opposed to direct measures of service utilisation so that authorities are not able to directly influence their SSAs and thus the amount of grant that they receive. The indicators used in the formulae fall into three categories:

- *Main client group* – The main factor influencing cost, e.g. population, pupil numbers or road lengths.
- *Deprivation* – Indicators to reflect the additional cost of providing services to populations with higher levels of deprivation, e.g. income support recipients, people with long-term illness.
- *Population dispersion* – Indicators to reflect the additional cost of providing services to populations in more sparsely populated areas. Measures of population dispersion were developed specifically for use in the Welsh Local Government Settlement, based on the pattern of settlements in Wales.

14. The formulae for all services were reviewed prior to the 2001-02 Settlement following an independent review undertaken by Swansea University and Pion Economics.

The recommendations from this work were implemented in the 2001-02 and subsequent settlements. A major review of the main PSS service formulae was carried out in 2004, with the new formulae for 'children and young persons' and 'older adults services' being incorporated into the 2005-06 Settlement, and for 'younger adults' in the 2007-08 settlement.

15. The formulae are mainly derived using statistical modelling methods but, for a small number of services, this is not possible as the pattern of expenditure across authorities is so varied that it is necessary to develop a formula based on informed judgement. This is also the case for new services where expenditure data is not available to enable a formula to be derived using statistical modelling.
16. Some services do not have their own formula but are distributed using that of a related service. This is often the case for a new service where patterns of expenditure are not yet known and the formula for the most similar service is used. It is also used for some general functions, such as administration, which are distributed on the basis of the relevant services, e.g. education administration is distributed on the basis of the SSAs for all education services.
17. The percentage share of funding for each authority is listed in the sections on service and sector Indicator Based Assessments (IBAs). This shows the weighting given to each authority based on the Composite Primary Indicator (CPI). The CPI is calculated by multiplying each authority's indicator value by the weight shown in the formula. This is repeated for each part of the formula and the resulting values are added. The total value is divided by the value for Wales and used to calculate the percentage share of the funding for each authority.
18. The capital financing component of an authority's SSA is modelled separately. The prudential borrowing system was introduced in 2004-05. Debt incurred as a result of government approved loans for capital projects in place on 31 March 2004 will be written off on a reducing balance basis over 25 years. The Welsh Government makes an assessment of new borrowing that it is prepared to support and includes this in the calculations, along with debt already incurred as a result of government approved loans. There are also adjustments for grants provided by central government for capital financing purposes.

Distribution using expenditure

19. In a small number of cases, the actual expenditure on a service (or the best available estimate) is used. This is the case where the expenditure is predetermined and is not within an authority's direct control. Examples of this are levies for drainage and national parks.

Summary

20. The total SSA for an authority is calculated as the sum of current SSA and the debt-financing components.
21. The following form the basis of the system.

- The overall size of the Settlement is determined by government control totals.
- The relative weights of the services are determined by actual expenditure patterns at the all-Wales level.
- The distribution within services is, in general, determined by objective indicators of authorities' relative need to spend.
- SSAs and component services do not represent spending targets for authorities. They are only a means for distributing grant.