

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

Treatment of council tax in the settlement formula

Summary

1. This paper looks at the distributional implications of changing the 2.5% council tax increase assumption that is used to estimate Council Tax Income at Standard Spending (CTISS) in the settlement funding formula.

Views sought

2. DSG members are asked to assess whether it is appropriate to change the 2.5% council tax increase assumption in the formula and, if so, to recommend a method for determining what this assumption should be.

Background

3. The assumption for the increase in council tax used to estimate council tax income at standard spending within the settlement has remained constant at 2.5% since 2011-12. It is timely to review this to determine whether it is appropriate to use a different method of determining the assumption in the future.
4. It was agreed this issue should be included as a 'Short-Term Consideration' within the DSG Work Programme for 2018, which was subsequently agreed by the Finance Sub-Group in January 2018.
5. This paper looks at the implications of changing the council tax increase assumption.

Analysis

The assumption for the increase in council tax

6. 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.
7. Council tax assumptions are built into the settlement calculations by taking the average band D County Council council tax for the year prior to the settlement year, multiplying this by tax-setting tax base for the settlement year, subtracting council tax for discretionary rate relief and then multiplying by the council tax increase assumption (currently 2.5%) to arrive at CTISS.
8. This assumed annual increase in council tax has been fixed at 2.5% since 2011-12. By way of comparison, in 2017-18, the Wales average for the increase in County Council council tax was 3.04%, this was 3.63% in 2016-17 and 4.36% in 2015-16.

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

9. Table 1 shows the differences in AEF when changing the 2.5% assumption to the Wales average increase in County Council council tax in 2017-18 (3.04%).

Table 1: Changes in 2018-19 AEF when changing the assumption for council tax increase

Local Authority	Aggregate External Finance			
	2018-19 AEF using 2.5% assumption	2018-19 AEF using 3.04% assumption (2017-18 Wales average)	Difference	Rank
Isle of Anglesey	95,811,835	95,800,609	-11,226	14
Gwynedd	175,127,334	175,128,311	977	12
Conwy	153,575,755	153,545,047	-30,708	16
Denbighshire	143,119,148	143,125,852	6,704	10
Flintshire	189,156,283	189,121,876	-34,407	17
Wrexham	174,636,390	174,624,686	-11,704	15
Powys	174,026,422	173,975,644	-50,778	19
Ceredigion	101,250,886	101,240,829	-10,057	13
Pembrokeshire	161,774,256	161,739,808	-34,448	18
Carmarthenshire	259,439,648	259,449,297	9,649	9
Swansea	319,087,205	319,099,147	11,942	7
Neath Port Talbot	212,340,809	212,395,742	54,933	3
Bridgend	191,581,742	191,587,996	6,254	11
The Vale of Glamorgan	152,480,479	152,416,375	-64,104	21
Rhondda Cynon Taf	364,176,172	364,301,442	125,270	1
Merthyr Tydfil	90,305,039	90,336,873	31,834	5
Caerphilly	267,240,454	267,314,108	73,654	2
Blaenau Gwent	109,633,201	109,675,038	41,837	4
Torfaen	131,542,711	131,564,398	21,687	6
Monmouthshire	93,217,596	93,133,043	-84,553	22
Newport	212,790,074	212,800,825	10,751	8
Cardiff	440,946,781	440,883,274	-63,507	20

10. The table shows the four highest monetary increases in AEF were in Rhondda Cynon Taf, Caerphilly, Neath Port Talbot and Blaenau Gwent, and highest decreases in AEF were in Monmouthshire, The Vale of Glamorgan, Cardiff and Powys.
11. The higher the assumption for the increase in council tax, the more impact the non-actuals element of the formula will have in determining AEF, meaning less emphasis is placed on actuals. As a result of this, authorities which benefit more from the non-actuals element of the formula than actuals will benefit from an increase in the council tax assumption.
12. In determining what the assumption for the increase should be, it may be beneficial for DSG to consider two or three year averages as this would help to prevent large year on year differences in the assumption.

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

13. Table 2 compares the changes in the AEF for the 2018-19 final settlement when changing the 2.5% assumption to the 2017-18 Wales average increase (3.04%), the previous 2 years average increase for Wales (3.33%) and the previous 3 years average increase for Wales (3.68%).

Table 2: Changes in AEF compared with the Final 2018-19 AEF using the 2.5% assumption.

Local Authority	Aggregate External Finance			Rank
	Difference in AEF using 3.04% assumption (2017-18 Wales average)	Difference in AEF using 3.33% assumption (2 year Wales average)	Difference in AEF using 3.68% assumption (3 year Wales average)	
Isle of Anglesey	-11,226	-17,256	-24,532	14
Gwynedd	977	1,502	2,135	12
Conwy	-30,708	-47,199	-67,102	16
Denbighshire	6,704	10,304	14,649	10
Flintshire	-34,407	-52,885	-75,186	17
Wrexham	-11,704	-17,989	-25,575	15
Powys	-50,778	-78,047	-110,958	19
Ceredigion	-10,057	-15,459	-21,978	13
Pembrokeshire	-34,448	-52,947	-75,275	18
Carmarthenshire	9,649	14,831	21,085	9
Swansea	11,942	18,355	26,096	7
Neath Port Talbot	54,933	84,435	120,040	3
Bridgend	6,254	9,613	13,666	11
The Vale of Glamorgan	-64,104	-98,531	-140,080	21
Rhondda Cynon Taf	125,270	192,545	273,738	1
Merthyr Tydfil	31,834	48,930	69,563	5
Caerphilly	73,654	113,209	160,948	2
Blaenau Gwent	41,837	64,305	91,422	4
Torfaen	21,687	33,334	47,390	6
Monmouthshire	-84,553	-129,961	-184,764	22
Newport	10,751	16,525	23,494	8
Cardiff	-63,507	-97,614	-138,776	20

14. The table shows the recent trend in council tax increases means there are greater differences in AEF when changing the assumption to a 3 year average compared with using the previous year's average.

Conclusion

15. Members are asked to recommend a proposed method for determining the assumption for council tax increase for RSG calculation purposes from 2019-20 onwards.