

Distribution Sub-Group (2020) Paper 13 – Council tax uplift in the settlement

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Council tax uplift in the settlement

Summary

1. This paper looks at options for calculating the council tax uplift used to estimate Council Tax Income at Standard Spending (CTSS) in the local government settlement funding formula.

Views sought

2. DSG members are asked to agree on a methodology for calculating the council tax uplift in the local government settlement funding formula from 2021-22 onwards

Recent related papers

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

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

Background

3. 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).
4. The CTSS is included and derived so that the settlement funding equalises for locally generated resources, by recognising the relative ability of councils to raise income through taxing their residents.
5. This is because local authorities in Wales differ in their capacity to raise council tax because of differences in their tax base 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.
6. 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.
7. 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

Distribution Sub-Group (2020) Paper 13 – Council tax uplift in the settlement

reward or penalise an authority for the local discretionary choices they have made in setting their council tax level.

8. In creating the notional Wales average band D council tax level, the settlement model requires an assumption on the change in council tax that will happen in the settlement year.
9. This was agreed by DSG (2018 – paper 3) to be based on the change in average band D at a Wales level over the latest three years, as opposed to the historic method of being fixed at a 2.5% increase.
10. At the May 2020 DSG meeting, members agreed that, while including a variable council tax uplift was correct, it was worth revisiting the methodology behind the calculation of the level of uplift. It was suggested to explore 5- and 7-year averages, as well as the current 3-year average, in order to see a smoother trajectory, especially since stability is unlikely in the next three years due to the covid-19 pandemic and the cycle of local and national elections.

Analysis

11. Table 1 shows the potential options for calculating the council tax uplift in the settlement model and the differences from the actual council tax uplift (which is only known after publication of the settlement).

Table 1: Difference between actual council tax uplift and potential council tax uplift options

	2016-17	2017-18	2018-19	2019-20	2020-21
Actual CT uplift (1)	3.63%	3.04%	4.94%	6.16%	4.62%
CT assumption prior to 2019-20 (2)	2.50%	2.50%	2.50%	2.50%	2.50%
3-year CT average (3)	3.83%	4.07%	3.68%	3.87%	4.72%
5-year CT average (4)	3.28%	3.41%	3.63%	4.04%	4.43%
7-year CT average (5)	3.43%	3.38%	3.29%	3.58%	4.18%
Difference (1) - (2)	1.1%	0.5%	2.4%	3.7%	2.1%
Difference (1) - (3)	-0.2%	-1.0%	1.3%	2.3%	-0.1%
Difference (1) - (4)	0.4%	-0.4%	1.3%	2.1%	0.2%
Difference (1) - (5)	0.2%	-0.3%	1.6%	2.6%	0.4%

12. The 2.5% option, which was used prior to 2019-20 is the least accurate predictor of council tax increases in the settlement year. While option 3 appears to be the best predictor over time of the council tax increase, option 4 offers a more smoothed series of uplifts, with option 5 smoothing the figures further.
13. Table 2 in the annex outlines the impact on the 2020-21 settlement of using 5- and 7-year averages to set the council tax uplift.
14. Using a 5-year average, in this instance, reduces the impact on the authorities most affected by the change in council tax assumption, such as Monmouthshire, which sees a

Distribution Sub-Group (2020) Paper 13 – Council tax uplift in the settlement

0.05 percentage point increase in its change in AEF from 2019-20 to 2020-21. Moving to a 7-year average, reduces the impact further. However, were there historically high council tax increases (i.e. in years “-6” and “-7”) this would have opposite impact.

15. The changes in the CT uplift figure from one year to the next would see increased smoothing, the greater the number of years included in the averaging; however, this does not necessarily mean less financial impact each year, but a smoothing in the change in annual financial impact.

Conclusion

16. Members are asked to consider which method of calculating the council tax uplift is most appropriate and to make a recommendation on this for the 2021-22 settlement and future settlements.

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

Distribution Sub-Group (2020) Paper 13 – Council tax uplift in the settlement

Table 2: Financial implications of options for calculating the council tax uplift in the settlement

Local Authority	2020-21 AEF (£000)			Change in adjusted AEF			% point difference from actual AEF		
	3-year average	5-year average	7-year average	3-year average	5-year average	7-year average	3-year average	5-year average	7-year average
Isle of Anglesey	101,005	101,012	101,017	3.8%	3.8%	3.8%	0.00%	0.01%	0.01%
Gwynedd	187,579	187,572	187,566	4.6%	4.6%	4.6%	0.00%	0.00%	-0.01%
Conwy	161,398	161,416	161,431	3.4%	3.4%	3.4%	0.00%	0.01%	0.02%
Denbighshire	151,932	151,927	151,923	4.3%	4.3%	4.3%	0.00%	0.00%	-0.01%
Flintshire	199,386	199,408	199,426	3.7%	3.7%	3.8%	0.00%	0.01%	0.02%
Wrexham	184,296	184,301	184,306	3.5%	3.5%	3.5%	0.00%	0.00%	0.01%
Powys	184,289	184,318	184,343	4.2%	4.2%	4.2%	0.00%	0.02%	0.03%
Ceredigion	107,646	107,651	107,656	4.2%	4.2%	4.2%	0.00%	0.01%	0.01%
Pembrokeshire	172,204	172,226	172,245	4.9%	4.9%	4.9%	0.00%	0.01%	0.02%
Carmarthenshire	274,159	274,156	274,153	4.4%	4.4%	4.4%	0.00%	0.00%	0.00%
Swansea	339,381	339,373	339,366	4.2%	4.2%	4.2%	0.00%	0.00%	0.00%
Neath Port Talbot	226,762	226,728	226,699	4.5%	4.4%	4.4%	0.00%	-0.02%	-0.03%
Bridgend	203,127	203,125	203,123	4.7%	4.7%	4.7%	0.00%	0.00%	0.00%
The Vale Of Glamorgan	161,021	161,064	161,101	4.9%	5.0%	5.0%	0.00%	0.03%	0.05%
Rhondda Cynon Taf	388,666	388,591	388,527	4.5%	4.4%	4.4%	0.00%	-0.02%	-0.04%
Merthyr Tydfil	96,810	96,790	96,773	4.8%	4.8%	4.8%	0.00%	-0.02%	-0.04%
Caerphilly	283,367	283,322	283,283	4.1%	4.1%	4.1%	0.00%	-0.02%	-0.03%
Blaenau Gwent	116,063	116,039	116,017	3.9%	3.9%	3.8%	0.00%	-0.02%	-0.04%
Torfaen	140,467	140,454	140,443	4.5%	4.5%	4.5%	0.00%	-0.01%	-0.02%
Monmouthshire	97,760	97,811	97,855	3.0%	3.1%	3.1%	0.00%	0.05%	0.10%
Newport	228,077	228,071	228,066	5.4%	5.4%	5.4%	0.00%	0.00%	-0.01%
Cardiff	469,047	469,088	469,124	4.1%	4.1%	4.1%	0.00%	0.01%	0.02%
Total Unitary Authorities	4,474,444	4,474,444	4,474,444	4.3%	4.3%	4.3%	0.00%	0.00%	0.00%