



## Local Government Settlement

The first stage in the process of determining the local government revenue and capital settlements is the publication of the **provisional local government settlement**, usually in late October or November<sup>1</sup>. This sets out the draft capital and revenue allocations to be made to local authorities and includes information on the range of other grants available in addition to the settlement. In producing the provisional settlement, the Welsh Assembly Government takes into account the views expressed in the report of the Expenditure Sub Group (ESG)<sup>2</sup>. The publication of the provisional settlement marks the start of a four week formal consultation period towards agreeing the final settlement.

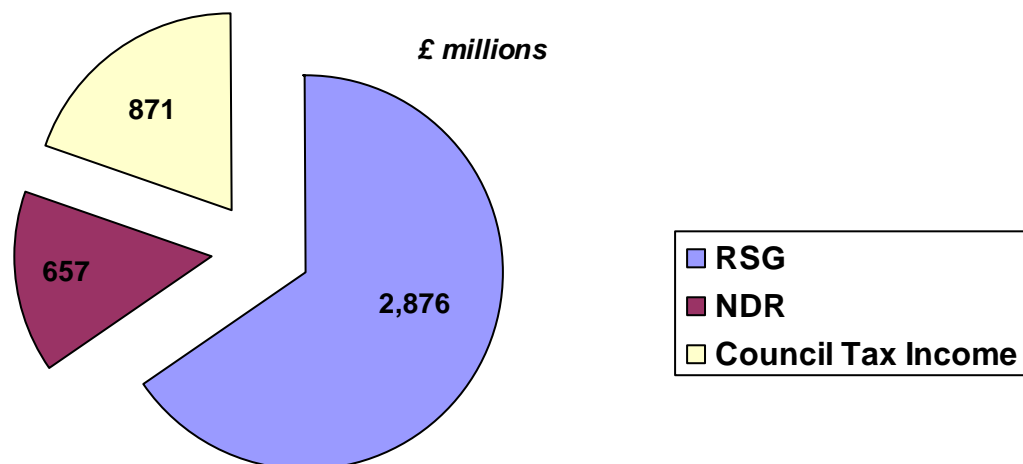
The **Final Local Government Settlement** is laid before the Assembly following the formal consultation period on the provisional settlement, usually in December<sup>3</sup>. It sets out information on the final settlement allocated to local authorities including the amount of extra grants available. This publication provides local authorities with the information necessary to set their budgets and council tax levels for the coming financial year. At the same time as the report is laid, a motion is tabled that the Assembly approve the report by resolution in Plenary. This motion is not subject to amendment<sup>4</sup>.

Publication of the **“Green Book”** (Background information for Standard Spending Assessments), usually in March, provides analysis of the Standard Spending Assessments by individual services used in the calculation of the revenue settlement.

### Funding of Local Authorities in Wales

Around 80 per cent of the funding made available to local authorities in Wales is provided by the Welsh Assembly Government in the form of the Revenue Support Grant (RSG) and re-distributed National Non-Domestic Rates (NDR). In terms of the Local Government Settlement, the sum of RSG and NDR is termed Aggregate External Finance (AEF).

**Figure 1. Balance of Funding for Local Authorities<sup>(a)</sup> in Wales in the 2006-07 Settlement**



**Source:** Figures from the 2006-07 Final Local Government Settlement (Welsh Assembly Government)

Note: (a) Excluding Police Authorities

<sup>1</sup> According to standing order 21.11, whenever a draft budget for the Welsh Assembly Government is laid before the Assembly, at the same time or as soon as reasonably practicable thereafter, a draft local government finance report for the following financial year should be laid before the Assembly. Not more than two such draft reports may be laid.

<sup>2</sup> The purpose of the ESG Report is to identify the financial pressures on local government and the increase in resources necessary to meet these pressures.

<sup>3</sup> Standing Order 21.11 states that the report must be laid in final form not later than February 15.

<sup>4</sup> Under Standing Order 21.12



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### RSG and NDR<sup>5</sup>

The RSG is a non-hypothecated<sup>6</sup> grant distributed to local authorities on the basis of a needs based formula. This formula is maintained and reviewed by the Distribution Sub Group (DSG), a joint Welsh Assembly Government/local government working group. The formula takes account of such factors as population, numbers of children and elderly people, road lengths, rurality and sparsity. The DSG is given a remit by the [Consultative Forum on Finance](#) each year. The remit comprises a list of service areas which should be investigated and reflects the views of DSG members.

Non-Domestic Rates are also known as business rates and are a property tax paid by non-domestic properties. They are the means by which businesses and other users of non-domestic property contribute towards the costs of local authority services. Business rates are calculated by taking the Rateable Value of a property and multiplying it by the non-domestic rates "multiplier" for the year in question<sup>7</sup>. Business rates are collected and paid into the Assembly's Non-Domestic Rates Pool<sup>8</sup>. They are then redistributed back to local authorities (pro rata to adult population) as part of the Local Government Revenue Settlement each year.

### Other Sources of Funding

The remaining funding is raised locally in the form of Council Tax which is set by each local authority as part of its annual budget setting process and charged according to valuation bands. Each local authority is required to calculate its council tax base in accordance with [Local Authorities \(Calculation of Council Tax Base\) \(Wales\) Regulations 1995](#)<sup>9</sup>. In terms of the settlement, in order to ensure consistency across Wales, no account is taken of councils' assumptions about collection rates – collection rates are assumed to be 100 per cent.

Outside the settlement, Local Authorities are able to apply for additional funding through the Welsh Assembly Government grant programme<sup>10</sup>. These hypothecated grants are provided to local government for specific purposes and any funding received must be spent on the area specified when the grant was provided.

### Distribution of Grants – The Standard Spending Assessment

Standard Spending Assessments (SSAs) are the mechanism used to distribute the revenue support grant (RSG) to local authorities to enable them to charge the same council tax for the provision of a similar standard of service. They are intended to reflect the 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.

<sup>5</sup> See Members' Research QuickGuide 17 on Business Rates (NDR) for further information

<sup>6</sup> The RSG grant is unhypothecated support which local authorities may spend as they see fit on the services for which they are responsible. The ability of local authorities to set their own spending priorities is a stated principle of the Welsh Assembly Government's local government settlement process

<sup>7</sup> The Valuation Office Agency who are independent of the Assembly, value properties for the purposes of charging business rates and assign the Rateable Values. The Assembly sets the multiplier each year and it changes every year to move in line with inflation.

<sup>8</sup> Under the Local Authority Business Growth Incentive (LABGI) scheme, local authorities have the potential to retain some of the business rates which they collect to spend on their own priorities. The Welsh Assembly Government sets a baseline rateable value for each local authority and it may keep some or all of the business rates generated in excess of this baseline

<sup>9</sup> These regulations have been amended, see the Local Authorities (Calculation of Council Tax Base) (Wales) (Amendment) Regulations 1999: <http://www.opsi.gov.uk/legislation/wales/wsi1999/19992935e.htm> and the Local Authorities (Calculation of Council Tax Base) and Council Tax (Prescribed Classes of Dwelling) (Wales) (Amendment) Regulations 2004: <http://www.opsi.gov.uk/legislation/wales/wsi2004/20043094e.htm>

<sup>10</sup> Table E in the link below provides an indication of the specific grants and amounts available during 2006-07: [http://new.wales.gov.uk/docrepos/40382/403822/40382213321/Tables\\_A\\_to\\_E.pdf?lang=cy](http://new.wales.gov.uk/docrepos/40382/403822/40382213321/Tables_A_to_E.pdf?lang=cy)



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At the 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 increase in funding from central government. However, SSAs are only a mechanism for distributing grant and are in no way meant to be prescriptive in relation to local authority budgets.

Actual budgets may be above or below the SSA for any given authority as decisions on the level of service provided vary from authority to authority. Any local authority spending above the SSA is financed entirely from the council tax.

### SSA Calculation<sup>11</sup>

The system of grant allocation is designed to be objective and to equalise for need and resources. The following principles underlie the calculation of SSAs:

- The overall size of the settlement is determined by government control totals;
- The relative weights of the services provided by local government are determined by actual expenditure patterns;
- The distribution within services is, in general, determined by objective indicators of authorities' relative need to spend.

For the purpose of calculating individual SSA allocations, local government revenue spending is broken down into 55 notional service areas. A separate method of distribution exists for each of these elements in order to distribute the total across the authorities.

The formula used to calculate SSAs is set out in the annual Local Government Finance Report (Wales) which is laid before and debated by the Assembly at a Plenary session.

### RSG Allocation to individual Local Authorities

Under the system of distribution determined in the Local Government Finance Report, the amount of RSG to be paid to an individual local authority is determined by its SSA, taking account of the amount of NDR it will receive and also assuming the amount of council tax it is able to raise. In order to calculate the amount of grant to be paid to each council, the Assembly Government will first calculate the SSA for that authority as explained above. It is assumed that there is no use of or contribution to local authorities' financial reserves.

The RSG entitlement for each council is calculated by applying the formula:

<b>A – B – (C * D)</b>	A = Standard Spending Assessment of LA in question
	B = The LA in question's share of Non-domestic Rates
	C = Standard Tax Element
	D = The Council Tax base for the LA in question

A local authority's share of NDR is determined by its proportion of the resident population of Wales aged 18 years and over derived from estimates by the Registrar General. The standard tax element is the same for all authorities. It is a notional figure because all local

<sup>11</sup> For a more detailed explanation of Standard Spending Assessments, see QuickGuide 16 on Standard Spending Assessments produced by the Members' Research Service and the guide to Standard Spending Assessments produced by the Welsh Assembly Government

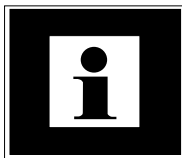


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authorities budget to collect below their full tax base and because authorities may spend above or below SSA. The council tax base is effectively the number of dwellings liable for council tax adjusted to take account of the number of properties in each council tax band. The tax base will therefore vary by authority based on the number and value of the properties in the area.

### Amending Reports

One amending report<sup>12</sup> detailing changes to the basis of distribution outlined in the approved Local Government Finance Report may be laid before the Assembly at any time before the end of the financial year immediately following the year to which the Finance Report relates. Amending reports set out the changes in distribution of RSG to authorities in Wales that have occurred after the approval of the Finance Report by the Assembly. Prior to publishing an amending report, the Welsh Assembly Government is required to notify the appropriate representatives of local government of the general nature of the amendments it intends to make. A copy of the report must be sent to each receiving authority as soon as practicable following its publication.



#### Further Information:

For further information on the topics below, double click on the links.

Welsh Assembly Government [Local Government Finance Report \(provisional\) 2007-08](#)

Welsh Assembly Government [Local Government Finance Report \(final\) 2006-07](#)

Welsh Assembly Government [Green Book 2006-07](#)

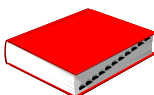
Welsh Assembly Government [Guide to Standard Spending Assessments](#)

Welsh Assembly Government [Local Government Finance Amending Report 2005-06](#)



#### More QuickGuides:

Full list of [QuickGuides](#)



#### Glossary of terms

[Glossary of Public Finance Terms](#)

<sup>12</sup> made under [section 84L](#) of the Local Government Finance Act 1988