

# Quick guide

## Local Government Settlement

November 2008

### Introduction

The first stage in the process of determining the local government revenue and capital settlements is the publication of the Provisional Local Government Settlement,<sup>1</sup> usually in late October or November following publication of the draft budget. 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 is followed by a statutory consultation period before determining the final settlement.

The Final Local Government Settlement<sup>3</sup> is laid before the Assembly following the formal consultation period on the provisional settlement, usually in December. It sets out information on the final settlement allocated to local authorities including the amount of 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 National Assembly for Wales approve the report by resolution in Plenary.

Publication of the “**Green Book**”<sup>4</sup> (Background Information for Standard Spending Assessments), usually in March, provides analysis of the Standard Spending Assessments (SSA) by individual services used in the calculation of the revenue settlement.

---

<sup>1</sup> Welsh Assembly Government: [Provisional Local Government Revenue and Capital Settlement](#) 2008-09

<sup>2</sup> The ESG provides an opportunity for the Welsh Assembly Government to consult with the WLGA on the financial pressures on local government and discuss the additional resources necessary to meet these pressures. The ESG [report](#) is produced by the WLGA in light of these discussions.

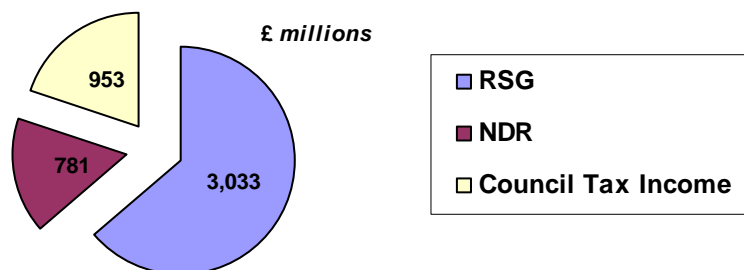
<sup>3</sup> [Local Government Finance Report 2008-09](#), GEN-LD6934, 22 January 2008, the Local Government Finance report is made under Section 84G of the *Local Government Finance Act 1988*, as amended by the *Local Government Act 2003*.

<sup>4</sup> Welsh Assembly Government: [Green Book 2008-09](#)

## Funding of Local Authorities in Wales

Around 80 per cent of the funding in the Settlement 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). 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 2008-09 Settlement**



**Source:** Figures from the 2008-09 Final Local Government Settlement (Welsh Assembly Government)

**Note:** (a) Excluding Police Authorities

## RSG and NDR

The RSG is a non-hypothecated<sup>5</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.<sup>6</sup> 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<sup>7</sup> each year. This remit comprises a list of service areas which should be investigated and reflects the views of Welsh Assembly Government and local government.

Non-domestic rates (NDR), also known as business rates, are a property tax paid in relation to 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>8</sup>. Business rates are collected and paid into the Welsh Assembly Government's non-domestic rates pool. They are then redistributed back to local authorities (pro rata to adult population) as part of the local government revenue settlement each year.

<sup>5</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>6</sup> Welsh Assembly Government **Distribution Sub-Group**

<sup>7</sup> The **Consultative Forum on Finance** is a Standing Working Group of the Partnership Council which provides the machinery to consult widely with the local authority associations on all aspects of local government finance.

<sup>8</sup> The Valuation Office Agency who are independent of the Welsh Assembly Government, value properties for the purposes of charging business rates and assign the rateable values. The Welsh Assembly Government sets the multiplier each year and it changes every year to move in line with inflation.

## Other sources of Funding

Additional funding in the revenue settlement 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.

Local authorities are eligible for additional funding to support expenditure on specific service areas through the Welsh Assembly Government grant programme. 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.

There are also additional sources of non-hypothecated funding outside RSG such as Deprivation Grant and Improvement Agreement Grant.

## Distribution of Grants – The Standard Spending Assessment

Standard Spending Assessments (SSAs) are the mechanism for distribution of the resources to local authorities. The SSA is the Government's mechanism for allocating grant based on a calculation of what each local authority needs to spend to deliver a standard level of services at a common rate of council tax.

The SSA formula is kept under review by the Distribution Sub-Group in consultation with local authorities<sup>10</sup>. This is derived by a needs based calculation using information reflecting demographic, physical, economic and social characteristics. It also reflects the relative costs of providing comparable services between different authorities.

Differences in SSAs between authorities with the same service responsibilities are, therefore, due to differences in their underlying characteristics. SSA is not based on actual spending.

---

<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> Welsh Assembly Government [Distribution Sub-Group](#)

## 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 58 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 National Assembly for Wales at a Plenary session.

## 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 National 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.

---

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

<sup>12</sup> [Local Government Finance Amending Report 2005-06](#)

## Further information

For further information on Local Government Settlement please contact **Martin Jennings**, Members' Research Service ([Martin.Jennings@Wales.GSI.Gov.UK](mailto:Martin.Jennings@Wales.GSI.Gov.UK))

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

- Welsh Government [Local Government Finance Report \(provisional\) 2008-09](#)
- Welsh Government [Local Government Finance Report \(final\) 2008-09](#)
- Welsh Government [Green Book 2008-09](#)
- Welsh Government [Guide to Standard Spending Assessments](#)
- Welsh Government [Local Government Finance Amending Report 2005-06](#)

View our full list of [quick guides](#) here.

---

MRS08/1207/J King & M Jennings

Members' Research Service briefings are compiled for the benefit of Assembly Members and their support staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public. We welcome comments on our briefings; these should be sent to the Members' Research Service, National Assembly for Wales, Cardiff CF99 1NA or e-mailed to [MembersLibrary@wales.gsi.gov.uk](mailto:MembersLibrary@wales.gsi.gov.uk)