Paper for School Funding Committee

WELSH UNITARY AUTHORITY STANDARD SPENDING ASSESSMENTS (SSAs).

Introduction

1. This paper sets out the arrangements that operate in Wales for distributing the revenue support grant (RSG). The system operates on the principle of determining a standard spending assessment (SSA) for each unitary authority in Wales.

2. SSAs are intended to reflect variations in the need to spend which might be expected if all authorities responded in a similar way to the characteristics of their area and people. They are the mechanism for distributing 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.

SSAs and Budgets

3. At the Welsh level the total of SSAs is the same as the assumed total standard budgets for Welsh authorities and is therefore determined by decisions on the underlying increase in funding from central government and through council tax. However, as SSAs are only a mechanism for distributing grant, at the authority level, budgets will differ to SSAs as authorities choose the level at which they set their budgets. Actual budgets may therefore be above or below the SSA for the authority.

Funding of SSA.

4. The following elements make up SSAs:-

$$A \quad = \quad B \quad + \quad C \quad + \quad D$$
$$[SSA] \quad [NDR] \quad \quad [CT] \quad \quad [RSG]$$

B or NDR is an authority's allocation of re-distributed non-domestic rates. In Wales this is based on the authority's proportion of the 18 plus population;

C or CT is the total notional council tax income based on a standard council tax figure multiplied by the number of dwellings within the authority.

D or RSG is a "balancing" sum which tops up the amounts available from B and C above and enables an authority to spend at SSA.

5. The standard council tax figure is the same for all authorities and is referred to as the ***council tax for standard spending (CTSS).*** It is calculated at the Welsh 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.

6. The number of dwellings used is referred to as the ***taxbase*** and is effectively the number of 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 will therefore vary between authorities depending on both the number and value of properties in their area.

7. CTSS is a notional figure because all local authorities budget to collect less than their full taxbase due to assumptions about collection rates and also because authorities spend above or below SSA. Spending above SSA is funded wholly from council tax.
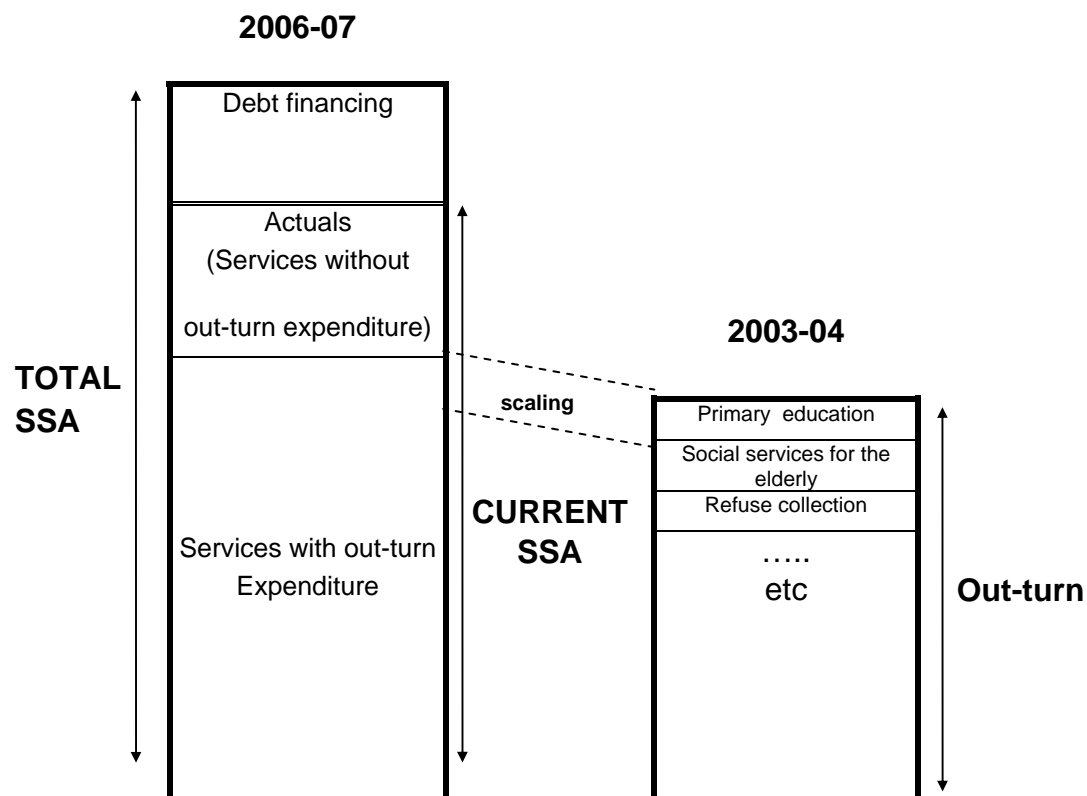
Individual SSA Components.

8. For the purpose of calculating individual SSA allocations, local government revenue spending is broken down into around 60 notional service areas. A separate method of distribution exists for each of these elements in order to distribute the total across the authorities. The distribution methods fall into two categories:

- Formula based on indicators of need (these indicators are intended to reflect the factors that drive the need to spend on a particular service. Typically they will reflect the size of the population to be served e.g. client-based indicators such as population, pupil numbers or road lengths. It may also be appropriate to reflect the additional cost of providing services to populations with higher levels of deprivation. These additional costs are reflected through such indicators as income support recipients, people with long-term illness. Also they reflect the additional costs associated with delivering services to more dispersed or more concentrated populations. A specific set of indicators known as settlement and dispersion indicators are employed to reflect these additional costs.

- For a relatively small element of the SSA, the pattern of expenditure across authorities is so varied that it is necessary to develop a formula using informed judgement or estimated expenditure. This is also the case for new services where expenditure data is not available to be able to derive a formula using statistical modelling.

9. Authorities' elements of the individual service areas are "unhypothecated" - they are notional figures which serve as building blocks for the overall SSA; they do not represent spending targets for individual services.

Defining Service Totals.

10. Whereas the distribution of the service SSA is determined by indicators of relative need, the total SSA for the delivery of a service across Wales is calculated with reference to previous expenditure on the service across Wales plus an estimate of the increased need to spend in the coming year.

11. Total SSA is divided into two elements:-

    - *current expenditure* (the amount notionally available for spending on current revenue services e.g. teaching costs);

    - *debt financing expenditure* (the notional amount available for financing loan debt including new borrowing.

12. The totals for the debt-financing component are calculated at the all Wales level outside the SSA formula (just over £305m in 2006-07). The total for current expenditure (current SSA) is calculated by subtracting the debt financing element from the overall total. The services that make up current SSA are termed 'current services'. Current SSA for 2006-07 totalled £4,099m.

13. Broad service totals are derived from the budgeted expenditure returns. The totals also reflect additions of new funding in respect of specific pressures or new responsibilities.

14. Individual service totals for current services are derived from the most up-to-date out-turn expenditure data available. The most recent data available is budget data. This is not available in enough detail and because of its provisional nature, would give a less reliable picture of actual spending patterns. Therefore for the detailed services, the year for which validated out-turn data are available is normally three years prior to the year of the settlement. So for the 2006-07 settlement calculations 2003-2004 out-turn expenditure data was used.

15. Some local authority functions, for instance those that have existed for less than three years, do not have relevant out-turn expenditure data. E.g. the learning disabilities strategy grant which was transferred into the settlement for 2006-07. The services relating to these functions have definite totals which are fed into the SSA calculation and are known as **actuals**. Excepting this, however, they are treated in the same way as all other services. They form a relatively small proportion of the total current SSA (£273m or 6.7% in 2006-07).

16. The totals for actuals are subtracted from the total for current SSA. The remaining amount is distributed amongst the other services depending on the proportion of their out-turn. Figure 1 illustrates the breakdown of total and current SSA.

Figure 1: Breakdown of total and current SSA e.g. for 2006-07

2006-07

TOTAL
SSA

Debt financing

Actuals
(Services without
out-turn expenditure)

Services with out-turn
Expenditure

scaling

CURRENT
SSA

2003-04

Primary education

Social services for the elderly

Refuse collection

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etc

Out-turn

Service out-turn expenditures are scaled to ensure that their sum is equal to the total for the settlement year.

17. 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 authorities element is determined purely in terms of a need indicator (except for the small number of actuals mentioned in para 12).

Distribution using a formula based on indicators of needs

18. As mentioned in paragraph 4, The majority of services are distributed on the basis of a formula containing indicators of need (client-based, deprivation and sparsity). Indicators of need are used as opposed to direct measures of service provision so that authorities are not able to directly influence their SSAs and hence the amount of grant that they receive.

19. In 2006-07, client-based indicators accounted for 68% of the distribution of current SSA, deprivation indicators accounted for 26% whilst the remaining 6% was distributed on sparsity indicators.

20. The formulae for all services have been reviewed taking account of the recommendations resulting from an independent review of the principles underpinning the formulae undertaken by Swansea University and Pion Economics in 1999. The outcomes of the reviews of the different formulae have been introduced into the settlement as they became available.

21. In the main the formulae have been derived using statistical modelling methods.

22. 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, but is also the case for some general functions such as administration which are distributed on the basis of all relevant services. E.g. education administration is distributed on the basis of SSAs for all education services.

Distribution using expenditure

23. 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 pre-determined and is in a sense not directly in the authorities' control. Examples of this are levies for drainage, national parks and sea fisheries committees.

Summary

24. The total SSA for an authority is calculated as the sum of current SSA and the debt-financing components mentioned above.

25. The following main points 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 historic expenditure patterns.

- The distribution within services is, in general, determined by objective indicators of authorities' relative need to spend.