

LOCAL GOVERNMENT AND HOUSING COMMITTEE

REVIEW OF THE STANDARD SPENDING ASSESSMENT (SSA) FORMULA

Purpose

1. This paper is presented to provide the Committee with the opportunity to comment on the final report of the Distribution Sub Group on the development of a new SSA formula for Wales.

Summary

2. The new formula has been developed by the Distribution Sub-Group (DSG) of the Consultative Forum on Finance, a Partnership Council working group. Their aim has been to develop proposals that reflect better than existing arrangements the range of drivers that shape local authority expenditure. DSG comprises senior representatives (primarily treasurers, finance directors or chief executives) of local authorities. It has two independent members, and its chair and secretariat are Local Government Finance Division officials. All statistical work, bar that on population distribution measures, has been carried out by the Assembly's Statistical Directorate.

3. Consultation has led DSG to recommend adjustments to 7 of the service assessments exemplified in Annex 5 of its report. The Group has recommended also that it be remitted to continue work on a number of areas, where the lack of information has made it impossible to test a recommendation by the Swansea University/Pion Economics team responsible for the earlier work on the review, or where responses to the consultation have raised points that it considers should be pursued more thoroughly than could be done in time for the 2001-02 settlement. This raises the question of future adjustments to the formula and how these should be incorporated.

4. The final report gives close attention to the treatment of deprivation and sparsity in the proposed new formula, recognising and responding to concerns expressed during the consultation.

Timing

5. The new formula is to be discussed by the Consultative Forum on Finance (9 October) and by the Partnership Council (16 October).

6. The final report will be debated in plenary on 19 October. If the new formula is to be used in the distribution of the 2001-02 revenue settlement to local government, it will be published in the draft Local Government Finance Report in accordance with Standing Order 19 later this autumn.

Background

Legislative Framework and Compliance

7. The SSA formula is used as the basis for distributing revenue support grant among local authorities in Wales. As such, it is published each year in the Local Government Finance Report, under Sections 78 and 78A of the Local Government Finance Act 1988 and in compliance with Assembly Standing Order 19.

Financial Implications

8. Financial Planning Division have been consulted about this committee paper and noted that, as the purpose of the review is to consider the reallocation of the total resources approved by the Assembly, there are no additional financial implications for the Assembly.

Consideration

9. DSG's work on the new formula began in March 1999, when it was remitted to pursue all the recommendations made by the University of Swansea in its independent review of the formula. Work on population dispersion and settlement indicators was conducted on DSG's behalf by Pion Economics, who reported to the group in December 1999.

10. The proposals were presented to local government and to Assembly Members and the press at a joint Assembly-WLGA seminar in Llandrindod Wells on 3 July. They were discussed by the Consultative Forum on Finance on 5 July and debated by the Assembly on 11 July, when the motion was rejected. A number of amendments to the motion were approved, as follows:

1 (Janet Ryder) "in the course of the consultation period the National Assembly requests the sub-group to give further consideration to:

- the overall proportion of the SSA allocated as compensation for sparsity

- the varying level of "unmet need", in such sectors as post-16 education, road maintenance, and the upgrading of bridges to meet heavy lorry weights already approved at Westminster"

2 (Janet Ryder) "the National Assembly further notes that without the allocation of extra resources some authorities will suffer a serious drop in SSA and therefore recommends that as a transitional arrangement these extra resources should be provided out of the budgetary reserves represented by "end of the year" flexibility"

3 (Phil Williams) "notes that some important recommendations from Swansea University/ Pion Economics, designed to cover cases where areas of deprivation and prosperity are combined within a single authority, cannot be implemented because the necessary local area data is not available from all authorities and recommends that a target should be set to acquire these data for all authorities in Wales."

4 (Peter Black) "the National Assembly for Wales urges the Finance Secretary and the Secretary for LG and Housing to ensure that more money is added to the local govt settlement so as to ensure that no council loses out as a result of the new formula and that the average Welsh council tax does not rise above the rate of inflation in 2000-01."

5 (David Davies) "The Assembly regrets that despite assurances to the contrary, sparsity and rurality indicators in the new formula decreased from 8 per cent to 6 per cent. The Assembly recognises that sparsity and rurality should be a key factor within the new formula"

Responses to the Consultation Exercise

11. Following this summer's consultation, evidence-based proposals for revisions to the formula were considered at two meetings in September by the DSG, including the independent assessors, before the final report was prepared. DSG members received copies of every response. Professor Phil Murphy, a member of the Swansea University team responsible for the original report on the SSA formula, also saw each response and has commented on the final work.

12. Some 50 responses were received, including submissions from each unitary authority in Wales. The Conservative and Liberal Democrat parties responded, as did a number of Assembly Members. Copies of all responses have been placed in the Assembly library. Officials met representatives of six local authorities and with one AM during the consultation

period in order to provide detailed technical briefings, as well as answering many written and telephoned requests for information and clarification.

13. A number of respondents confused the exemplifications in Chapter 3 and Annex 5 of the consultation paper with the "real" revenue settlement for next year. The final report is at pains to remind readers that DSG's work has of necessity been carried out before any decisions have been taken about the 2001-02 settlement. Annex 5 of the consultation paper tried to make this clear: "Certain elements of the SSA formula are updated annually as part of the annual settlement process. These have not been taken to account in the exemplifications. It must be noted that these will nonetheless influence changes between the 2000-01 settlement and that for 2001-02. For some authorities, the following changes will have a larger effect on the overall SSA than the changes under the review." Paragraph 2.iii of Annex 5 explains that that "The amount of changes will, of course, be affected by whatever change to total standard spending emerges from the National Assembly budget-setting process."

14. The summary of DSG's final report explains how the Sub Group treated each response to the consultation. DSG members agreed that every technical point made should be given close attention, whether the point was made by one respondent or several.

15. As DSG has concluded that a number of the Swansea recommendations cannot be pursued in full for 2001-02, it is suggesting that its remit for 2001 should, if the new formula is adopted, direct it to undertake further work on the area concerned (see Annex 4 of the final report). The final report also addresses the question of data collection, for example in the area of social services, where the unavailability of data has prevented Swansea University recommendations being fully tested. The Resources Group of the Association of Social Services Directors has offered to assist where appropriate.

Action

16. The Committee's views are invited. It may like, in particular, to offer views on the final section of the report "Future Work": on the "stability vs accuracy" question (paragraph 74), members may like to consider Prof Murphy's comment that "to promote planning and financial stability, I think that once an acceptable formula is in place a moratorium on changes to it should be agreed until the next review period (say a 3-4 year review window). This should also provide a breathing space for the ongoing statistical work that will need to be done to inform the process".

Documents attached

17. Final Report of the Distribution Sub Group

Associated Papers

18. DSG consultation paper *Standard Spending Assessments in Wales: Report of the Distribution Sub Group*.

Policy Contact

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Local Government Finance Division October 2000