

**This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.**

## **DSG Progress Report**

### **Summary**

1. Annex A contains a draft DSG progress report for presentation to the Finance Sub Group on 25 September.

### **Views sought**

2. Members are asked to consider the content of the report and provide comments.
3. Welsh Government Officials will update this paper with the comments from DSG to re-circulate to members for final agreement, ahead of the Finance Sub Group meeting on 25 September.

**Local Government Finance Policy  
Welsh Government**

**REPORT OF THE  
DISTRIBUTION SUB GROUP  
September 2019**

## **Report of the Distribution Sub Group 2019**

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## **SECTION 1: INTRODUCTION AND REMIT**

### **Introduction**

1. This report has been prepared by the Distribution Sub Group (DSG), a working group of the Finance Sub Group of the Partnership Council for Wales. It is an account of the 2019 DSG work programme and the Group's recommendations on changes to the Standard Spending Assessment (SSA) formulae for implementation in the 2020-21 Local Government Settlement. For the 2019 work programme, DSG met on four occasions and considered 24 papers.

### **The Distribution Sub Group**

#### Purpose

2. The purpose of the DSG is to maintain and develop a fair and accurate 'funding formula' for distributing the Local Government Revenue Settlement. The 'funding formula' is a series of around 50 formulae which distribute a notional Standard Spending Assessment (SSA) between the 22 unitary authorities in Wales. A typical formula comprises a series of indicators reflecting the main client group and, where appropriate, adjustments for deprivation and/or population sparsity. Each authority's SSA allocation determines its share of over £4 billion of Aggregate External Finance (AEF) after taking account of each authority's ability to raise resources from its own council tax base.
3. The funding formula is kept under a programme of review, of which the underlying principles were established by an independent review of the SSA system, undertaken in 2000 by Swansea University and Pion Economics. The 2019 work programme can be found in Annex D.

#### Remit for 2019

4. The work programme has been developed with reference to the principles agreed by the Society of Welsh Treasurers. The work programme also recognises that some elements will be for implementation in the 2020-21 Settlement whereas others will be for implementation over a longer timescale.
5. The main objectives of the DSG are:
  - To propose to Finance Sub Group (FSG) an annual programme of work to develop the formula for compiling and distributing Standard Spending Assessments (SSA).
  - To implement the annual DSG Work Programme, as agreed by FSG.
  - To ensure all data used in the settlement are objective, robust, current and validated and are drawn from reliable, stable and representative data sources.
  - To ensure data collected centrally are reviewed as part of a longer term work programme and, where appropriate, to arrange for additional data to be collected.
  - To consider distributional matters arising from significant transfers, new responsibilities and all significant changes affecting the distribution of SSA.

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- To consider the distributional aspects of specific grant schemes, as appropriate, on a timely basis and in line with the Welsh Government guidance on grants.
  - To advise FSG on matters of stability and multi-year indications as appropriate.
  - To prepare an annual report with recommendations for consideration by FSG.
6. In considering the work programme, members have previously expressed concern around the distribution of the Education Improvement Grant and the inconsistency of messaging around the ending of the Minority Ethnic Achievement Grant (MEAG), in particular. Members highlighted the need for all transfers to be brought to DSG to determine distribution and impact on the overall funding received by authorities.

### **Membership**

7. Details of the membership of the DSG during 2019 are at Annex A. Membership included representative officials of the Welsh Local Government Association (WLGA), Welsh Government officials and independent members. Annex B contains the report of the independent members on the work of the DSG in 2019. The Local Government membership is determined by the WLGA.

## **SECTION 2: OVERVIEW OF THE 2019 DSG WORK PROGRAMME**

8. This section provides an overview of the progress under the two sections of the 2019 DSG work programme: shorter term considerations and longer term considerations.

### **I. Shorter term considerations**

#### Financial stability

9. The remit of the Group is to recommend an approach, recognising that it is for Ministers to decide whether to implement an appropriate stability mechanism. Local Government members made reference to the importance of stability within the Settlement, particularly given the pressures they expect to face in the coming years.
10. Their ongoing view is that a floor mechanism should be considered for the 2020-21 Settlement, if required, to protect authorities from unmanageable changes. The DSG recognises that decisions on any floor arrangement are the responsibility of the Minister for Housing and Local Government.
11. The Group wishes to keep in mind the underlying stability of the Settlement formula.

#### Formula and data development activities

12. As agreed in the Distribution Sub Group work programme, the key focus areas for the 2020-21 Settlement are essential formula maintenance to allow time to consider the implications of local government reform.
13. Annual updates to key datasets were considered, such as expenditure data and pupil numbers. The following matters were also considered:
- Treatment of discretionary council tax discounts in the tax base
  - Treatment of new responsibilities in the settlement
  - Financial phasing of the Welsh Independent Living Grant (WILG)
  - The treatment of school reserves in the revenue outturn data
  - The impact of universal credit on the PLASC FSM data
  - The impact of universal credit on the dependent children indicator
  - The impact of universal credit on the Housing benefits indicator
  - Assumed interest rate for the debt financing element of the formula
14. Further detail is included in section 3.

#### Specific grants

15. The Group considered potential transfers into the settlement of funding for the transfer of Social Care related tasks provided by a registered Nurse in Nursing Homes, funding for the Coastal Risk Management Programme and additional funding for the WILG.
16. Further consideration was also given to the distributional issues associated with:
- the proposal to transfer responsibility to local authorities for managing post-16 Learning Difficulties and/or Disabilities (LDD) specialist placements,

- the distribution of funding for the Minority Ethnic Achievement and Gypsy, Roma and Traveller (MEAGRT) specific grant.

17. Further considerations of the distribution of transfers are outlined in section 4. As no transfers have formally been agreed for the 2020-21 settlement and details of proposed transfers are yet to be finalised, the table in annex C does not include an exemplification of any transfers.

## **II. Longer term considerations**

18. Aside from essential formula maintenance, the focus of the group has been on addressing the recognised deficiencies of the current formula and considering whether there is an alternative which is more directly related to the need to spend and could provide greater stability.

19. Under the longer term work, the following themes were considered:

- Exploring a bottom up determination of cost drivers within the education formula
- Modernising the waste formula

## **SECTION 3: CHANGES TO EXISTING FORMULAE AND DATA ISSUES**

### **3.1 Formula Development Activities**

#### Treatment of new responsibilities and the funding floor

20. DSG members discussed the impact of passporting new responsibilities through the funding floor and the funding consequences if this would be implemented. The group raised concerns that this would cause more issues with distribution and the transparency of the formula.

**Recommendation: To not change the way the funding floor is calculated in the settlement.**

#### Consistent treatment of council tax discounts in the settlement formula

21. The group discussed the treatment of Council Tax discounts in the Settlement formula. The current process means that those Councils who have exercised their discretion to reduce or remove the discount on long term empty or second homes have an increased tax base for RSG purposes compared to authorities that have not exercised this discretion. This means that authorities that have exercised their discretion are being penalised through the settlement, compared to those not exercising their discretion. The current technical proposal, agreed by DSG, is to treat all empty properties and second homes as receiving no discounts regardless of the local policy decision. The data collection form will change to reflect this change for the 2020-21 collection.

**Recommendation: To treat all empty properties and second homes as receiving no discounts regardless of the local policy decision for the purpose of calculating the 100% tax base for RSG purposes.**

#### Revenue Outturn data

22. DSG members considered the impact of changing the treatment of school reserves in the RO data used in the mapping of the education Indicator Based Assessment (IBA) service areas. The group decided that they did not believe this to have a major financial impact on the distribution going forward and recommended not to change the current methodology in the interest of striking a balance between additional complexity and the amount of value added to the formula, as cited in the DSG Terms of Reference.

**Recommendation: To not change the way in which school reserves are currently treated in the settlement RO build.**

#### Pool Rate working group

23. Welsh Government officials and local authority officers have continued to work to review the Pool Rate model. Welsh Government Officials have discussed the current analysis which the working group have undertaken, and are further investigating the implications of this and how this could be taken forward. Further investigatory work will be undertaken over the remainder of the year and during 2020.

**Recommendation: To continue with the current methodology for the calculation of the pool rate for 2020-21, with a view to making changes for 2021-22.**

Welsh independent living grant phasing

24. The group considered the financial element of phasing the Welsh independent living grant for 2020-21. DSG agreed to remove half of the original WILG value from the Younger adults' IBA and distribute the £13.5 million WILG IBA on historic WILG expenditure was the most sensible option to continue with the phasing of the funding. For 2021-22, a quarter of the funding will be removed into the WILG IBA and, for future years, the funding will fully phase into the already established IBAs.

**Recommendation: To remove half of the original value (£13.5m) from the younger adults' IBA into the WILG IBA for 2020-21 and to distribute on historic WILG expenditure; to remove a quarter of the original value (£6.75m) from the younger adults' IBA into the WILG IBA for 2021-22 and to completely phase onto formula from 2022-23.**

Non-HRA formula

25. DSG considered two factors with the funding formula: updating the frozen homelessness data and updating the underlying weightings used within the indicator to reflect the increased funding for homelessness that has been put in over the past 3 years. The homelessness data is dealt with in section 3.2 but the group agreed that both updates should be carried out at the same time.

**Recommendation: To wait until the homelessness indicator is updated before re-weighting the formula**

Longer term progress

Education Formula Modelling Considerations

26. The education sub-group have investigated each authority's own school funding formula, to assess for any commonality between the drivers of need to spend across authorities. The group are now working with ADEW Finance representatives to progress this work further. The ADEW finance representatives are currently assembling a document highlighting the main drivers of need within mainstream schools and are going to test this with other colleagues in the coming weeks. At this stage in the process, no values or weighting will have been ascribed to each driver of need, to ensure that the group first start with understanding the essential building blocks of what drivers the need to spend in mainstream schools. Further work will be required by the group before developing a working hypothesis.

Waste Formula Modelling Considerations

27. The Waste Working Group have discussed a variety of issues they feel need to be taken into consideration in constructing any new formula for Waste Services. They have met with Waste and Resources Action Programme (WRAP) Cymru to discuss the underlying assumptions used in their modelling, including route optimisation. The WRAP have now shared an example report with Welsh Government officials. The Waste sub-group are setting up further meetings to consider the assumptions and how these can be used going forward.

### 3.2 Data Issues

#### Latest pupil data for the 2020-21 Settlement

28. The group considered the financial implications for total SSA of updating the latest pupil numbers taken from the January 2019 Pupil Level Annual School Census (PLASC). The financial implications can be found in the table in Annex C.

**Recommendation: To update the PLASC pupil numbers to the latest, 2019, data**

#### Homelessness data

29. In light of the change in legislation in 2015 and a fundamental change in the homelessness data collected from local authorities the data was frozen in the settlement calculation from 2017-18. DSG considered a paper presenting a number of options to update the Non-HRA housing IBA. The group discussed the differences in the new data collected compared with the previous data used in the IBA and agreed that further work needed to be done on this to identify the drivers of need to spend, and to align with Welsh Government policy.

**Recommendation: To revisit the potential alternatives to the previous homelessness data under the 2020 work programme.**

#### Latest expenditure data for the 2020-21 Settlement

30. The group reviewed the impact of updating the underlying expenditure data in the model using the budget data sourced from Revenue Account (RA) returns.

31. The group agreed in principal that, although the Revenue Outturn (RO) data has not been published yet, and therefore they couldn't view the shifts in the data itself, the data should still be used in the 2020-21 settlement.

32. The financial implications of the both data changes can be found in the table in Annex C.

**Recommendation: The SSA build for the 2020-21 settlement will be calculated using the most up-to-date RA (2019-20) and RO (2018-19) data – in line with Society of Welsh Treasurers (SWT) principles.**

#### Population projections

33. The population projections used with in the settlement get re-based every 2-3 years by Welsh Government Knowledge and Analytical Services to ensure the projections remain as accurate as possible. This year the population projections are published later in the year than normal meaning DSG will not get detailed analysis of the figures ahead of the DSG report being agreed. The group have also considered if any adjustments are required for Wrexham's prisoner figures.

**Recommendation: The group agree in principal that the latest population projections should be used with the settlement, but that there should be a floor mechanism in place to protect any authorities with unmanageable changes. DSG also agreed to make \*\*\*\* adjustments to Wrexham's prisoner population.**

### **3.2.1 Welfare Reform Update**

34. Welsh Government Officials have continued to monitor the rollout of Universal Credit, including the impact on the latest: eligibility for Free School Meals data taken from the January 2019 PLASC, dependent children in out of work families' indicator and the housing benefits indicator.
35. As of January 2019, Universal Credit had rolled out in respect of new claims for families across Wales and those that have changed circumstances, with potentially large financial impact seen on the 2020-21 Settlement.

#### **Eligible for free school meals**

36. The evidence on eligible for free school meal presented to the group in 2018 was inconclusive but it was agreed to proceed with the previous recommendation – a 3-year average of the data from 2016 to 2018 – to dampen any potential effect the rollout of universal credit is having on the figures.
37. The group revisited as part of the 2019 work programme. The 2019 data demonstrates that the length an authority has been on universal credit looks like it has had an impact on the distribution of the eFSM data.

#### **Recommendation:**

#### **Dependent Children in Out of Work Families data**

38. The latest data demonstrates that there is a correlation between the number of days a local authority has been on universal credit and the change in the dependent children data. This suggests that universal credit is having a distributional impact on the data.

#### **Recommendation:**

#### **Housing benefits data**

39. The group considered the latest housing benefits data which suggests that universal credit is having some distributional impact.

#### **Recommendation:**

## SECTION 4: SPECIFIC GRANTS

### NHS-funded nursing care

40. The group considered a paper on the latest position with regards to the proposed transfer of funding for social care related tasks provided by a registered nurse in nursing homes to the Revenue Support Grant (RSG) for 2020-21.
41. The paper recommended that the potential transfer into the RSG should be distributed on the older persons IBA. The funding would then be subsumed into the relevant IBAs once the corresponding Revenue Outturn (RO) data becomes available in the third year of the transfer.

**Recommendation: That this funding should be distributed on the Older Adults Residential and Domiciliary Care Indicator Based Assessment on any transfer into the settlement and subsumed into the main formula once the RO data becomes available.**

### Post-16 Learning Difficulties and/or Disabilities (LDD) Specialist Placements

42. DSG have raised that the Additional Learning Needs and Education Tribunal (ALNET) Act as a whole requires further understanding, at a political and an official level, of the requirements expected of authorities prior to fully agreeing the distribution of funding going forward.
43. Due to the complex distributional nature of this funding, because of the high cost per placement, the group emphasised the importance that the distribution is agreed as early as possible to allow authorities enough time to prepare. In light of this, the DSG have agreed to distribution mechanism in theory, but are awaiting the outcomes from a political level around the whole transfer of responsibility of the ALNET act, prior to confirming the distribution going forward. Further papers will be considered ahead of the transfer of funding to local authorities in 2021-22 at the earliest.

**Recommendation: That further discussions on costings and funding for the Additional Learning Needs and Education Tribunal (ALNET) Act need to be taken at a political level prior to fully agreeing the distribution of this specific grant. The group to continue to fully consider the distribution mechanism for the grant ahead of the eventual transfers to local authorities.**

### Minority Ethnic Achievement and Gypsy, Roma and Traveller Grant (MEAGRT)

44. Members of the DSG reflected that the proposed methodology (distributing on the number of ME and GRT pupils) uses the correct driver of need to spend and is more equitable than the previous methods used.

### Coastal Risk Management Programme (CRMP) grant

45. The group considered a paper on the potential transfer into the settlement of funding for the CRMP. The funding is proposed to be paid as a specific grant in the first (and potentially second) year of each scheme potentially moving to RSG for the remaining 23 or 24 years, according to the profile set by the policy area in the first year of the grant scheme.

**Recommendation: On transfer of the funding for the individual schemes, that these amounts be transferred on a specific distribution for the remainder of the scheme, according to the profile set out by the policy area.**

Welsh Independent Living Grant Additional Funding Transfer

46. DSG members considered, in principal, the distribution of any additional WILG funding that could be transferred into the settlement, from 2020-21 onwards and agreed that, because this is a fixed distribution to only a set number of authorities it would be appropriate to fix the distribution for 2 years and then let the funding be subsumed into the main formula once the RO data becomes available.

**Recommendation: To distribute any funding that may be transferred into the settlement for further WILG funding on a fixed basis for two years and then to allow the funding to be subsumed into the formula.**

**ANNEX A: MEMBERSHIP OF THE DSG 2019**

**Welsh Government – Local Government Finance Policy / Strategic Finance Division**

Judith Cole – Deputy Director, Local Government Finance and Workforce Partnerships Division (Chair)

Debra Carter – Deputy Director, Local Government Strategic Finance

Emma Smith – Local Government Finance and Workforce Partnerships

Simon Edwards – Local Government Finance and Workforce Partnerships

Ashley Caddick – Local Government Finance and Workforce Partnerships

Shelley Heath – Local Government Finance and Workforce Partnerships (until March 2019)

Heather Haywood – Local Government Finance and Workforce Partnerships (From September 2019)

Clare Blake – Local Government Strategic Finance

**Independent Members**

Prof Hugh Coombs (until March 2019)

Prof Rhys Andrews (until March 2019)

Chris Barton

Dr Dennis de Widt (from July 2019)

Guto Ifan (from August 2019)

**Welsh Local Government Association representatives**

Jon Rae	Director of Resources, Welsh Local Government Association
Dilwyn Williams	Chief Executive, Gwynedd County Council
Andrew Stephens	Head of the Local Government Data Unit Wales
Hywel Jenkins	Director of Finance & Corporate Services Neath Port Talbot County Borough Council
Chris Lee	Director of Financial Service Rhondda Cynon Taf County Borough Council (until March 2019)
David Powell	Strategic Director Resources, Powys County Council (until March 2019)
Joy Robson	Head of Finance, Monmouthshire County Council (until January 2019)
Ian Allwood	Head of Finance, Cardiff Council
Richard Weigh	Chief Finance Officer, Denbighshire County Council (until May 2019)
Carys Lord	Head of Finance / Section 151 Officer, Vale of Glamorgan Council
Jane Thomas	Head of Finance (Section 151), Powys County Council (From April 2019)
Mark Howcroft	Head of Finance, Monmouthshire County Council (From May 2019)
Barrie Davies	Director of Finance and Digital Services, Rhondda Cynon Taf County Borough Council (from April 2019)
Steve Gadd	Chief Accountant, Denbighshire County Council (from July 2019)

## **ANNEX B: REPORT OF THE INDEPENDENT MEMBERS 2019**

### **Objectivity and Fairness**

As the independent members of the Distribution Sub-Group (DSG) we would confirm that in our opinion the work of the group has been carried out objectively.

In forming our opinion we have had access to all the papers and meetings of the Distribution Sub Group which we consider necessary to form our judgement. In these papers, meetings and the observed manner in which the group carried out its work, there was no evidence of bias designed to favour any particular interest or group of interests.

We therefore conclude that, in arriving at the recommendations in this report, the members of DSG properly represented the interests of all Welsh local authorities and showed no bias either in favour of, or against, the interests of any particular local authority or group of local authorities.

### **The Work of DSG**

Changes to the formula in 2018 have again concentrated on the updating of key data sets and amending parts of the formula where data is no longer able to support the existing distribution formulae.

Previous reports of the Independent members of DSG, and indeed reports to the DSG itself, have referenced the need for a holistic review of the formula mechanism and whilst the members are pleased to note some progress has been made to plan for related activity in this regard, this progress remains very much in the background.

### **Future Developments**

There has been some evidence this year that individual councils are beginning to question more robustly the construct of and outcomes from the formula. This is almost certainly driven by the increasing stress resulting from ongoing funding constraints.

Whilst much of this stress comes from the finite financial resources available to fund services, work to update and future proof the formula is paramount in reassuring local government and the wider community that the basis of the formula remains valid, appropriate and fair.

There is a continued debate between local and national partners about how to take the settlement formula forward to ensure clarity and transparency into the future. This report has previously called for a more fundamental review of the formula and this view is reiterated again. Whilst work has been planned, it is not currently at the forefront of developments.

For the sake of completeness, the imperatives for a review of the formula remain unaltered and are reiterated below.

- The continuing need to amend aspects of the formula and to bring historical data up to date suggests that the current formula is still far from stable. The transparency of any changes to the distribution as a result of such amendments also remains an issue.

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- Reliance on historical data and spending patterns in a period of austerity and significant change is likely to have implications for the appropriateness of the existing distribution mechanism and brings with it a danger of loss of consensus and the possibility of direct challenge.
- The current formula mechanism is based on a methodology that does not meet established standards of statistical practice. Regression analysis of only twenty-two cases (i.e. the Welsh local authorities) is susceptible to over-fitting of the data and to influential cases skewing the estimates. Multi-level modelling can address some of the challenges in robustly identifying predictors of the need to spend. Nevertheless, the distribution of grant funding remains highly sensitive to changes in data aggregated to the local authority level.
- Finally, given the reliance on collaboration for the delivery of many key services across Wales, and divergence in the delivery models that have been adopted in some individual councils, there is a need to consider in what ways alternative approaches to the production of services might need to be incorporated within the formula.

It is not in the remit of the independent members to comment on the approach taken to the provision of local government services in the future however, there are a number of factors which will need to be taken into account regardless of any future delivery model chosen. These include:

- How any change to the overall system of local government finance in Wales might be accommodated
- Whether changes to devolved funding and national taxation may influence the mechanism
- How the underlying methodology for the mechanism could be adapted were structural changes to occur
- How changes would be dealt with in the existing or any replacement mechanism
- How changes to any non-unitary authority funding regimes may be dealt with in the context of transfers in or out of the settlement
- Whether and how differential levels of local taxation may be accommodated by the existing mechanism should it prove necessary
- How any replacement mechanism would or would not take account of the different levels of local taxation currently levied in parts of Wales
- How transparency of any new formula can be enhanced
- How the formula meets established principles of statistical best practice if this is a necessity

The next local government election term of four years still provides the opportunity to address many of the matters referred to above.

Finally, we would particularly wish to record our recognition of the professional manner in which the officials of the Welsh Government and the officers of the Welsh Local Government Association continue to deal with this complex task.

Chris Barton CPFA  
Professor Rhys Andrews  
Professor Hugh Coombs  
September 2018

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**ANNEX C: MODELLED IMPACT OF CHANGES ON THE 2019-20 TOTAL SSA\***

Local Authority	2019-20 SSA				2019-20 SSA		Differences	
	Published	Key Dataset Changes		Formula Changes	With changes	£000s	%	
		a) latest RO and RA data**	b) latest PLASC data**	c) population* d) Change to the WILG distribution				
Isle of Anglesey	134,023	127	-254	*	-52	133,844	-179	-0.1%
Gwynedd	239,019	7	-158	*	-271	238,598	-421	-0.2%
Conwy	216,481	-127	-186	*	-79	216,088	-393	-0.2%
Denbighshire	193,782	207	107	*	13	194,109	327	0.2%
Flintshire	269,127	-494	-249	*	-87	268,296	-830	-0.3%
Wrexham	242,951	-675	81	*	-190	242,167	-784	-0.3%
Powys	250,776	1,236	-441	*	-43	251,528	751	0.3%
Ceredigion	141,469	391	176	*	23	142,058	590	0.4%
Pembrokeshire	231,734	-182	173	*	-89	231,637	-98	0.0%
Carmarthenshire	353,034	-807	-259	*	-409	351,558	-1,476	-0.4%
Swansea	436,813	370	-597	*	242	436,828	14	0.0%
Neath Port Talbot	275,663	145	-113	*	7	275,702	39	0.0%
Bridgend	260,148	-210	322	*	9	260,270	122	0.0%
The Vale of Glamorgan	228,101	21	306	*	90	228,519	417	0.2%
Rhondda Cynon Taf	465,653	-517	324	*	-92	465,368	-285	-0.1%
Merthyr Tydfil	114,980	-57	86	*	-4	115,005	25	0.0%
Caerphilly	345,584	137	-376	*	157	345,502	-82	0.0%
Blaenau Gwent	137,453	130	-64	*	63	137,582	129	0.1%
Torfaen	175,078	-109	-202	*	-23	174,745	-333	-0.2%
Monmouthshire	150,530	383	-664	*	95	150,345	-185	-0.1%
Newport	288,940	-22	1,153	*	107	290,178	1,238	0.4%
Cardiff	628,820	43	838	*	532	630,233	1,413	0.2%
<b>WALES</b>	<b>5,780,158</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,780,158</b>	<b>0</b>	<b>0.0%</b>

Notes:

Figures do not indicate actual funding allocations for 2020-21 and only exemplify some of the updates for the 2020-21 settlement. Other updates

Figures do not include the exemplified impact of the proposed change to the council tax base methodology outlined in annex C

a) Distribution changes resulting from an update to RO and RA data.

b) Distribution changes resulting from the 2019 PLASC pupil data only (including EOTAS pupils).

c) Distribution changes resulting from updating from 2014-based 2019 population projections to 2017-based 2020 population projections are currently unavailable

d) Distribution changes resulting from the phased approach to the WILG funding formula change (see section 3.1.21)

\*The changes to the distribution are not mutually exclusive but have been presented as such in this table. Actual allocations will account for these dependencies.

\*\*Data is still undergoing validation.

**DISTRIBUTION SUB GROUP WORK PROGRAMME 2019**

The work programme for 2019 is in two parts covering the short-term and longer term considerations in relation to the development of the formula. The first section considers those items that have been identified as needing to be considered in order to ensure future settlements (2019-20 and 2020-21 settlements) take account of issues affecting it. The second section considers those aspects of the current formula which it is recommended be reviewed over a longer timescale to ensure the formula is continually improving and remains relevant and fit for purpose.

**Shorter Term Considerations**

Item	Description	Resource	Timing / action
<b>General Items</b>			
Post-16 Learning Difficulties and/or Disabilities Specialist Placements	<p>Consideration is being given to changing the arrangements for Post-16 Learning Difficulties and/or Disabilities Specialist Placements. These considerations follow on from the proposals for a new statutory framework for supporting children and young people with additional learning needs (ALN) contained in the Additional Learning Needs and Education Tribunal Bill which was introduced into the National Assembly for Wales on 12 December 2016.</p> <p>DSG will need to consider the distributional implications of the proposal to transfer responsibility to local authorities for managing these specialist placements.</p>	LGFWP	2021-22 at the earliest.
Welfare Reform	<p>As benefit-related data are key components of the settlement, there is a continued need for DSG to monitor the emerging impact of welfare reform on the data used in the formula. In particular, DSG will need to consider the potential definitional changes to the free school meals eligibility indicators. [Also referenced under the Free School Meal item.]</p> <p>As well as short term consideration of the implications of the changes to the UK Government welfare support, consideration also needs to be given to the changes beyond 2020-21 which affect the distribution of resources to local authorities.</p>	LGFWP	DSG to consider ongoing
Assumed interest rate for the debt financing element of the formula (Pool Rate)	DSG receives an annual update on the calculation of the notional interest rate assumption used in the settlement model to calculate the element of the settlement that relates to debt financing costs. There is a need to review the assumptions that underpin this component, in particular the approach to reversing out the self-	LGFWP / Pool Rate working group	DSG to consider the advice of the Pool

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Item	Description	Resource	Timing / action
	<p>financed borrowing element from the model to ensure the assumptions underpinning the calculation of the interest rate continues to be consistent with the overall borrowing position.</p> <p>The working group will continue to review the process with a view of simplifying the model in 2019.</p>		Rate Working Group in spring 2019
Treatment of the discretionary council tax discounts in the Settlement model	Further investigation of the treatment of council tax discounts when calculating the 100% tax base for RSG calculation purposes.	LGFWP	To confirm any changes by April 2019
Free School Meal Indicator	<p>DSG has expressed concerns at the volatility of this indicator and the impact universal credit has on the indicator. Further analysis will be carried out to look at the potential to assess if universal credit is skewing the distribution.</p> <p>The education sub-group to assess potential other data sources to replace this indicator.</p>	LGFWP	March
Homelessness	The homeless data has been frozen, since the 2016-17 Settlement. DSG noted that, in the long term, options need to be considered for future settlements. Review the homelessness data, post changes to housing legislation and integration of homelessness prevention funding in the settlement.	LGFWP	July
Treatment of New Responsibilities in the Floor Calculation	New responsibilities are currently treated prior to the floor funding considerations. Investigation will be done to consider the affects if new responsibilities were to be passported through the floor mechanism.	LGFWP	January/ March
Children in out of work families indicator	Given the large weighting ascribed to this indicator, the DSG should monitor the indicator ensuring that universal credit has little impact or does not skew the distribution.	LGFWP	DSG to consider ongoing

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<b>Item</b>	<b>Description</b>	<b>Resource</b>	<b>Timing / action</b>
Updating Local Authority population projections	Calculating the financial impact of updating the local authority projections to the latest set of Welsh Government population projections.	LGFWP	May
<b>Specific Grants</b>			
Capital limits	To keep DSG informed of the local authority costings of the new policy and assess whether the distribution is still fit for purpose, and the potential of additional funding to be transferred into the settlement.	LGFWP / Policy team	Further paper from July/ September subject to data availability
Community Grants Flexible Funding Review	DSG to keep abreast of the flexible funding review and to consider any distributional issues as appropriate	Policy team	Monitor situation with policy.
Coastal Risk Management Programme	To consider the distribution of the funding in 2020-21 and future years and its potential transfers into the settlement.	LGFWP / Policy team	Monitor situation with policy.
Other potential transfers into and/or out of the settlement	To consider other potential transfers into the settlement at the appropriate juncture.	LGFWP / Policy teams	Monitor situation with policy.
Advice on the distribution of specific grant funding on an ad hoc basis	To consider the distributional aspects of specific grant schemes, as appropriate, on a timely basis and in line with the Welsh Government guidance on grants.	LGFWP / Policy teams	Monitor situation with policy.
<b>Annual standing papers</b>			
PLASC data updates	An annual standing paper looking at the implications of updating the PLASC data in the settlement formula on the distribution to authorities.	LGFWP	July / September
RO/RA data updates	An annual standing paper looking at the implications of updating the RO and RA data in the settlement formula on the distribution to authorities.	LGFWP	July / September
DSG Progress Report	A report of the progress of the DSG against the 2019 work programme up to July 2019, for presentation at the Finance Sub Group (FSG) meeting in July.	LGFWP	May (or late June via correspondence)
DSG Report	The final report of the DSG to be signed off by the Finance Sub Group (FSG) in September 2019.	LGFWP	September

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**Longer Term Considerations**

<b>Item</b>	<b>Description</b>	<b>Resource</b>	<b>Timing / action</b>
Education Formula	A technical sub group of DSG has been considering the potential for developing an alternative approach to the education formula within the model, based on building it up using unit cost measures for the main components of education spending.	LGFWP / Local Government DSG members	DSG to consider from January and Review progress at the May meeting
Modernising Waste Formula	The current waste formula was designed in 2002 and does not reflect the manner in which waste services have been transformed to place greater emphasis on recycling and reuse. This affects the way waste is collected and disposed of.  A technical sub group of DSG has been considering the data analysis and modelling assumptions needed to develop a revised formula.	LGFWP	Sub group to consider from January and Review progress at the May meeting
Wider policy considerations	To respond to any wider policy and reform commitments. The DSG needs to engage with these elements of work at the appropriate time.	TBC	TBC
Census data	Looking at the impact of updating the census data to distribute the funding, including updating the settlement and dispersion indicators.  Also keeping the group informed of the progress of the 2021 census.	LGFWP	Monitor situation with KAS.
Re-calibrate distribution weightings	The weightings within each indicators, used to distribute the funding, have not been re-calibrated for several years. As additional funding has been put in for specific new responsibilities through the years, the weighting are likely to have changed.	LGFWP	TBC