

## ***Distribution Sub-Group (2020) Paper 18 – DSG Progress Report***

**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 15 July.

#### **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 and re-circulate to members for final agreement, ahead of the Finance Sub Group meeting on 15 July.

**Local Government Finance and Workforce Partnerships Division  
Welsh Government**

## **DSG Progress Report – July 2020**

### **1 Introduction**

This paper sets out the key aspects of the remit of the Distribution Sub Group for 2020 and the progress in delivering this work.

### **2 Action required**

Finance Sub Group is asked to note the work undertaken by DSG and the progress to date.

### **3 Background**

The annual revenue settlement for local government in Wales is distributed using a relative needs-based formula. DSG's remit is to ensure the formula is maintained and developed to remain up to date, relevant, and reflective of relative need to spend.

The statutory framework for the annual settlements is governed by the Local Government Finance Act 1988. There are well-established principles which underpin the considerations of DSG, namely:

- Equity
- Stability
- Clarity
- Relevance

The principle of a relative needs-based formula encompasses the selection of objective indicators of need which are prepared on a consistent basis and to consistent standards across Wales and which are resilient to the policy choices made by different authorities.

### **4 Remit for 2020**

The main objectives of the DSG for 2020 are as follows.

- 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.
- 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.

## **5 Scope and requirements**

In February 2020, the Finance Sub Group agreed the work programme of the DSG, which 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 to ensure the timely delivery of next year's settlement in line with the principles and objectives of the formula. 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

- To consider the distributional implications of the proposal to transfer responsibility to local authorities for managing post-16 learning difficulties and/or disabilities specialist placements.
- To review the assumptions which underpin the assumed interest rate for the debt financing element of the formula (Pool Rate). In particular, the approach to reversing out the self-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.
- To consider how gender is accounted for within the formula by analysing the working age indicator.
- To assess the free school meals indicator and its suitability going forward.
- To consider other data sources to replace the Children in out of Work Families indicator within the settlement.
- To assess potential replacements for the Housing Benefit indicator
- To consider the treatment of the population indicator source
- Recalibrate the weightings of the non HRA indicator and look to replace the current homelessness indicator.
- To examine the distributional implications of potential transfers into and out of the settlement.
- To consider any other distributional matters identified which need to be addressed in the short term to secure the distribution of future local government settlements.

### Longer term considerations

- To work with a technical sub group to consider an alternative approach to the Education formula within the model, based on a bottom up determination of cost drivers.
- To work with a technical sub group to consider the data analysis and modelling assumptions needed to develop a revised formula for Waste.
- To respond to any wider policy and reform commitments.
- To look at the impact of updating the census data to distribute the funding in the settlement, including updating the settlement and dispersion indicators and to keep abreast of the progress of the 2021 census.
- To investigate the recalibration of the weightings within each indicator to ensure the distribution weights ascribed are still appropriate.

## **6 Progress**

DSG has met twice since the February meeting of FSG. The following gives a summary of the actions and proposals arising from these meetings.

### Shorter term progress

#### Treatment of working age population dataset

DSG considered the working age dataset used in the economic development part of the formula.

**Recommendation: To update the working age dataset within the formula to reflect the most recent pension ages.**

#### Council Tax Uplifts

DSG members have considered a number of papers presented by Welsh Government officials regarding Council Tax Uplifts and have been asked to agree on a methodology for calculating the council tax uplift in the local government settlement funding formula from 2021-22 onwards.

**Recommendation: \*\*\*Update following July meeting\*\*\***

#### The Impact of Universal Credit roll out on eFSM data

The group have continued to monitor the distributional impact the roll out of Universal Credit has had on Free School Meal eligibility. DSG members have been asked to discuss the treatment on the data source for the 2021-22 settlement and future settlements.

**Recommendation: \*\*\*Update following July meeting\*\*\***

#### Treatment of PLASC pupils data

The 2020 PLASC data was published in June 2020. The group were asked to consider the financial impact of updating the data and consider whether or not to update given the absence of settlement validation caused by the current pandemic.

**Recommendation: \*\*\*Update following July meeting\*\*\***

Treatment of population data

DSG members have considered a number of papers presented by Welsh Government officials regarding the financial implications of updating to different population data sources. The group have been asked to discuss which dataset provides the better predictor of the population for use in future settlements.

**Recommendation: \*\*\*Update following July meeting\*\*\***

Treatment of datasets within the settlement

In light of the covid-19 pandemic, DSG members have considered which datasets have been affected and where the collection of data may have been impacted. It was noted that certain data collections should be prioritised over others, including PLASC data. This work is ongoing.

Electoral registration Indicator Based Assessment

DSG members considered the indicator of need used to distribute the electoral registration Indicator Based Assessment, in light of the reduction in voting age for Senedd elections to include 16 and 17 year olds.

**Recommendation: \*\*\*Update following July meeting\*\*\***

Longer term progress

Education Formula Modelling Considerations

The education sub-group continues to consider 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.

**Local Government Finance and Workforce Partnerships Division  
Welsh Government  
July 2020**