

Distribution Sub-Group (2018) Paper 14 – 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 11 July.

Views sought

2. Members are asked to discuss the content of the report and provide comments on the content.
3. Following the May meeting of the DSG, Welsh Government Officials will update this paper with the progress made at that meeting and re-circulate to members for final agreement, ahead of the Finance Sub Group meeting on 11 July.

**Local Government Finance Policy
Welsh Government**

DSG Progress Report – July 2018

1 Introduction

This paper sets out the key aspects of the remit of the Distribution Sub Group for 2018 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 2018

The main objectives of the DSG for 2018 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 January 2018, the Finance Sub Group agreed the work programme 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 consider the distributional implications of the proposal to transfer responsibility for part of the supported housing element of housing benefit from the DWP to the Welsh Government.
- 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 investigate the distributional implications of changing the council tax increase assumption in the formula. Also to consider the treatment of discretionary discounts in the tax base used for calculation in the settlement.
- To consider the potential for greater stability of the free school meals indicator data and to monitor the emerging impact of welfare reform on the indicator data used in the formula, such as eligibility to claim free school meals, which is used as a proxy of school-age deprivation in the settlement formula.
- To consider, in more detail, the Revenue Outturn and Revenue Account data within the SSA Build of the Settlement, particularly the 'other service' category.
- 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 consider potential funding arrangements for strengthening Local Government.
- To progress the *Taking Wales Forward* commitments to reforming local government funding arrangements and to put in place a floor for future local government settlements.
- To consider the scope for simplifying the formula without materially changing the way in which it undertakes to reflect the relative need to spend.

6 Progress

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

Shorter term progress

Free School Meals indicator data

DSG considered the volatility of the Free School Meals data used in the Settlement calculations and considered other approaches to how this data is used for future settlements to account for the volatility and the implications this has on Settlement allocations. It was agreed a 3-year average of the data should be used for future settlements to account for volatility in the data.

Treatment of council tax in the settlement formula

DSG considered the distributional implications of changing the council tax increase assumption used to estimate Council Tax Income at Standard Spending in the settlement funding formula. The group agreed the current assumption is relatively small and agreed for a 3-year average of the increase in council tax be used to determine the assumption in future. The group discussed the treatment of Discretionary Council Tax discounts in the Settlement formula and agreed in principle for these to be reversed out of the 100% tax base calculations, subject to further analysis of the figures.

Welfare reform

DSG members monitored the current position on welfare reform, in particular the emerging impact of welfare reform on the indicator data used in the formula such as eligibility to claim free school meals, which is used as a proxy of school-age deprivation in the settlement formula.

Revenue Outturn data

DSG members assessed the impact of changing the RO data used in the mapping of the education IBA service areas and agreed slightly amending this would improve consistency of the model. The group discussed some issues in the construction of the build of the RO lines more generally and agreed to amend these where necessary.

Welsh Independent Living Grant

DSG discussed the current position of the Welsh Independent Living Grant, more analysis on distributions will be undertaken by the group when sufficient data becomes available.

Homelessness Indicator

In light of changes to legislation in 2015 and a fundamental change in the homelessness data, the group discussed the options for updating the Non-HRA housing IBA. It was agreed that further discussions should take place to assess whether the drivers of need are still fit for purpose.

Pool Rate working group

Welsh Government officials and local authority colleagues began work to review the Pool Rate model. DSG members discussed the current analysis which has been undertaken by the working group and considered the implications of the changes to the English guidance on Minimum Revenue Position (MRP).

Longer term progress

Education Formula Modelling Considerations

DSG considered initial approaches to using the schools benchmarking data provided by Data Unit Wales. The group identified limitations of the data, as well as potential advantages of using the data. The group agreed the next steps on this work stream should be taken forward by the Education sub-group.

Waste Formula Modelling Considerations

DSG discussed the work undertaken by the Waste Working Group in modelling a different distribution formula for the Waste collection and disposal elements of the settlement formula. The group agreed that the waste sub-group would be taking this work forward.