

**REPORT OF THE
DISTRIBUTION SUB GROUP
September 2018**

Report of the Distribution Sub Group 2018

CONTENTS

CONTENTS	2
SECTION 1: INTRODUCTION AND REMIT	3
SECTION 2: OVERVIEW OF THE 2018 DSG WORK PROGRAMME	5
SECTION 3: CHANGES TO EXISTING FORMULAE AND DATA ISSUES	7
SECTION 4: SPECIFIC GRANTS	12
ANNEX A: MEMBERSHIP OF THE DSG 2018	14
ANNEX B: REPORT OF THE INDEPENDENT MEMBERS 2018	15
ANNEX C: MODELLED IMPACT OF CHANGES ON THE 2018-19 TOTAL SSA*	17
ANNEX D: DISTRIBUTION SUB GROUP WORK PROGRAMME 2018	18

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 2018 DSG work programme and the Group's recommendations on changes to the Standard Spending Assessment (SSA) formulae for implementation in the 2019-20 Local Government Settlement. For the 2018 work programme, DSG met on five occasions and considered 26 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 2018 work programme can be found in Annex D.

Remit for 2018

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 2019-20 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.

- 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 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 2018 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 2018. The Local Government membership is determined by the WLGA.

SECTION 2: OVERVIEW OF THE 2018 DSG WORK PROGRAMME

8. This section provides an overview of the progress under the two sections of the 2018 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 2019-20 Settlement, if required, to protect authorities from unmanageable changes. The DSG recognises that decisions on any floor arrangement are the responsibility of the Cabinet Secretary for Local Government and Public Services.
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 2019-20 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 outturn data and pupil numbers. The following matters were also considered:
- Modelled council tax increase assumption
 - Treatment of discretionary council tax discounts in the tax base
 - The volatility of the Free School Meal data
 - Homelessness data
 - The underlying mapping feeding into the revenue outturn/account data
 - Distribution of the Welsh independent living grant
 - Updating the assumed Minimum Revenue Provision rate
 - Assumed interest rate for the debt financing element of the formula
 - Welfare benefits reform
 - Social care funding for prisoners in the secure estate

14. Further detail is included in section 3.

Specific grants

15. The Group considered potential transfers into the settlement of funding for Social Care related tasks provided by a registered Nurse in Nursing Homes and funding for the Coastal Risk Management Programme.
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 proposed devolution of funding for supported housing to the Welsh Government
- The distribution of any potential funding made available for the increased costs of delivering Free School Meals, as a result of the rollout of Universal Credit
- The distribution of any potential additional funding made available to support the increase to the capital limits for residential care towards the planned £50,000 limit

17. Further considerations of the distribution of transfers are outlined in section 4. As no transfers have formally been agreed for the 2019-20 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 council tax in the settlement formula

20. DSG considered the distributional implications of changing the council tax increase assumption used to estimate Council Tax Income at Standard Spending (CTISS) in the settlement funding formula, with a view to providing a better estimate of CTISS that is more reflective of the recent financial landscape in local government, in order to improve the equalisation of resources through the funding formula. The group agreed the current assumption is relatively small and agreed for a 3-year average of the increase in council tax is used to determine the assumption in future.

Recommendation: To use a 3-year average of the percentage changes in county council council tax to calculate the council tax increase assumption used to estimate Council Tax Income at Standard Spending in the settlement funding formula.

Distribution of the Welsh Independent Living Grant

21. DSG considered the distribution of the Welsh Independent Living Grant funding in the settlement from 2019-20 onwards. Given that the WILG was an historic grant that local authorities had inherited from the UK Government's Independent Living Fund, members were asked to consider looking at phasing the grant on to the younger adults' Personal Social Services (PSS) formula over four years.

Recommendation: To phase the Welsh Independent Living Grant Indicator Based Assessment from 100% actuals on to 100% of the younger adults' Personal Social Services formula by 2022-23 in 25% increments.

Updating the assumed Minimum Revenue Provision rate

22. A paper on the assumed Minimum Revenue Provision rate was presented to the group. It highlighted that currently 21 out of 22 authorities have taken the opportunity to amend their policies relating to supported borrowing, and have reduced their payments for supported debt from the 4% reducing balance. In light of this, members were asked to consider whether the current assumption within the settlement model for a 4% per annum repayment of debt principle is still valid. Members agreed with the current methodology, with potential to review in the future.

Assumed interest rate for the debt financing element of the formula

23. A working group was set up to look at the calculation of the assumed interest rate for the debt financing element of the formula (Pool Rate). The group discussed the potential for ceasing calculation of the Pool Rate and calculating the debt financing element of the settlement under a different methodology. DSG agreed that further consideration would need to be given to the implications of this and that any changes should be made to the 2020-21 settlement.

Funding for social care provision for prisoners in the secure estate

24. DSG re-visited the issue of the transfer into the settlement of funding for social care provision for prisoners in the secure estate and its previous recommendation to distribute the funding across all authorities, as opposed to a specific distribution, only to those authorities with prison populations. The population projections used in the settlement formula include prisoner numbers and are used to distribute some Indicator Based Assessments (IBAs) on which prisoner populations have little or no bearing. For example, DSG (2017) paper 5 identified over £600 thousand of funding for Bridgend, which was attributable to the inclusion of prisoner populations. It was agreed to stick with the original recommendation, to avoid double counting the prisoner populations in the formula.

The underlying mapping feeding into the Revenue outturn/account data

25. A paper was presented to the group showing the mapping and construction of the Revenue Outturn (RO) and Revenue Account (RA) data within the Settlement build. DSG agreed that the underlying issues with the School meal and Non-HRA IBAs should be rectified for the 2019-20 settlement. The financial implications of these changes are demonstrated in the table in annex C.

Recommendations: To amend the RO build as follows:

- **To net off the non-delegated school catering specific grants off the school meals IBA in the SSA build, as opposed to the three main schools IBAs**
- **To omit post-16 middle school pupil numbers in the apportionment of the middle school expenditure data between primary and secondary teaching IBAs**
- **To use the Wales average of primary and secondary school apportionment from middle schools where an authority has middle school expenditure but no middle school pupil data**
- **To include the housing benefit administration RO line in the build for the Non-HRA housing IBA, which is currently not included**

Treatment of Discretionary Discounts in the Council tax base

26. DSG considered the treatment of discretionary council tax discounts on the 100% council tax base used in the calculation of the local government settlement.

27. Further consideration needs to be given to the principles behind any change in methodology and this will be picked up under the 2019 work programme.

Longer term considerations

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

28. 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. A meeting has been arranged for November 2018.

Modernising the waste formula

29. 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. A similar data collection exercise to the education benchmarking is carried out for waste services and it was suggested that this should be looked at, in the first instance, by the Waste Working Group. A meeting has been arranged for November 2018.

3.2 Data Issues

Latest pupil data for the 2019-20 Settlement and volatility of the free school meal data

30. The Group considered the financial implications for total SSA of updating the latest pupil numbers and eligibility for Free School Meals data taken from the January 2018 Pupil Level Annual School Census (PLASC).
31. DSG members acknowledged the volatility of the PLASC data and agreed for 3-year averages to be used for future settlements in order to smooth out some of this volatility. This would be a temporary measure, until further research is carried out to assess if the Free School Meals data is the best indicator of deprivation.
32. The financial implications of the combined data change can be found in the table in Annex C.
- 33. Recommendation: The SSA for the 2019-20 settlement will be calculated using the most up-to-date January 2018 PLASC data for pupil numbers and an average of the three most recent years' PLASC data for Free School Meal eligibility.**

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 2018 PLASC. As of January 2018, Universal Credit has rolled out in respect of new claims for families across Wales with some impact on the 2018-19 Settlement.
35. The evidence presented to the group was inconclusive and 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 and to revisit as part of the 2019 work programme.

Homelessness data

36. 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. Consideration will also need to be given on the potential for re-basing the formula weightings and revisiting the regression model.

Latest expenditure data for the 2019-20 Settlement

37. The group reviewed the impact of updating the expenditure data in the model using the budget data sourced from Revenue Account returns and detailed outturn data sourced from Revenue Outturn returns. The financial implications of the combined data change can be found in the table in Annex C.

38. Recommendation: The SSA build for the 2019-20 settlement will be calculated using the most up-to-date RA (2018-19) and RO (2017-18) data – in line with Society of Welsh Treasurers (SWT) principles.

SECTION 4: SPECIFIC GRANTS

NHS-funded nursing care

39. 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 2019-20.
40. 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.
41. **Recommendation: The DSG recommended that this funding should be distributed on the Older Adults Residential and Domiciliary Care Indicator Based Assessment on any transfer into the settlement.**

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

42. DSG considered the distributional issues associated with the proposal to transfer responsibility to local authorities for managing post-16 LDD specialist placements and further analyses of current costs of the service. Further papers will be considered ahead of the transfer of funding in 2020-21 at the earliest.

Supported Housing

43. The DSG considered an oral item on the supported housing review ahead of the proposed devolution of funding to the Welsh Government. Since this, the UK government have reviewed the proposal and it has been withdrawn. The Group will be kept informed of any future developments at future meetings.

Coastal Risk Management Programme

44. The group considered a paper on the potential transfer into the settlement of funding for the Coastal Risk Management Programme (CRMP).
45. Due to the lack of information currently available on the cost of the schemes commencing in 2019-20, the funding will need to be paid as specific grant in 2019-20 before moving to RSG in 2020-21. Further papers will be prepared ahead of the potential transfer of funding in 2020-21.

Increasing Capital Limits for Residential Care

46. DSG considered an oral item on the latest position regarding the increase to the Capital Limit for Residential Care towards the planned £50,000 limit. For 2017-18, the limit was increased from £24,000 to £30,000, and £4.5 million put into the settlement to fund this. For 2018-19, the limit has been increased to £40,000, with an additional £7 million put into the settlement to fund this.
47. As of the September DSG meeting, policy officials were finalising the first full year of data, relating to the initial increase of this limit to £30,000 in 2017-18. At the 6-month

point, this data showed that the costings were about right at a Wales level, with the additional £7 million put into the settlement for 2018-19.

48. Local government members of DSG raised concerns that the average additional cost incurred was greater than £6,000 per person, due to the increased limit not taking account of a potential slower rate of reduction in an individual's capital under the previous arrangements.

49. A paper will be brought back to the November meeting, providing analysis of the first full year of data, six months of the second year and a comparison to the funding that was distributed through the settlement.

Free School Meal eligibility consultation

50. DSG considered an oral item on the potential distribution, through the settlement, of any funding that may be made available for the increased costs in delivering Free School Meals brought about by the change in eligibility criteria with the rollout of Universal Credit. The group agreed that any additional funding should be distributed on the current School Meals IBA formula. The group also advised that, in their opinion, any funding to be provided in 2018-19 for this purpose should go out on the same formula basis.

Recommendation: That any funding made available through the settlement to fund the increased costs in delivering Free School Meals brought about by the change in eligibility criteria with the rollout of Universal Credit should be distributed on the current School Meals IBA formula.

Teachers' pay

51. DSG considered an oral item on the potential distribution, through the settlement, of any funding that may be made available to meet the additional cost pressures on teachers' pay. The group agreed that any additional funding should be distributed on the sum of the three main schools IBAs – nursery and primary school teaching and other services; secondary school teaching and other services; and special education. The group also advised that, in their opinion, any funding to be provided in 2018-19 for this purpose should go out on the same formula basis.

Recommendation: That any funding made available through the settlement to fund the additional cost pressures on teachers' pay should be distributed on the sum of the three main schools IBAs – nursery and primary school teaching and other services; secondary school teaching and other services; and special education.

ANNEX A: MEMBERSHIP OF THE DSG 2018

Welsh Government – Local Government Finance Policy / Strategic Finance Division

Rob Hay – Deputy Director, Local Government Finance Policy (Chair) (until May 2018)
Judith Cole – Deputy Director, Local Government Finance and Workforce Partnerships Division (Chair (from May 2018))
Debra Carter – Deputy Director, Local Government Strategic Finance
Simon Edwards – Local Government Finance and Workforce Partnerships
Ashley Caddick – Local Government Finance and Workforce Partnerships
Joanna Leek – Local Government Finance and Workforce Partnerships (until September 2018)
Shelley Heath – Local Government Finance and Workforce Partnerships
Clare Blake – Local Government Strategic Finance

Independent Members

Prof Hugh Coombs
Prof Rhys Andrews
Chris Barton

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
David McAuliffe	Chief Finance Officer, Blaenau Gwent County Borough Council (until September 2018)
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
David Powell	Strategic Director Resources, Powys County Council
Joy Robson	Head of Finance, Monmouthshire County Council
Ian Allwood	Head of Finance, Cardiff Council
Richard Weigh	Chief Finance Officer, Denbighshire County Council
Carys Lord	Head of Finance / Section 151 Officer, Vale of Glamorgan Council (from September 2018)

ANNEX B: REPORT OF THE INDEPENDENT MEMBERS 2018

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.

- 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

ANNEX C: MODELLED IMPACT OF CHANGES ON THE 2018-19 TOTAL SSA*

Local Authority	<i>£ thousands</i>								
	2018-19 SSA	Key Dataset Changes			Formula Changes		2018-19 SSA	Differences	
	Published	a) latest RO and RA data**	b) latest PLASC data**	c) population**	d) Change to the RO Build	e) Change to the WILG distribution	With changes	£000s	%
Isle of Anglesey	131,702	-128	-192	-97	-51	-50	131,186	-516	-0.4%
Gwynedd	234,690	-258	-141	6	-91	-261	233,946	-745	-0.3%
Conwy	213,023	79	-588	-137	-42	-75	212,258	-765	-0.4%
Denbighshire	189,980	-152	-61	-58	-49	14	189,674	-306	-0.2%
Flintshire	264,333	-447	-69	-44	-90	-84	263,599	-734	-0.3%
Wrexham	238,042	35	-408	358	-1	-183	237,842	-200	-0.1%
Powys	246,913	-603	-763	-355	-83	-41	245,067	-1,846	-0.7%
Ceredigion	138,275	-168	84	-40	-12	22	138,160	-115	-0.1%
Pembrokeshire	226,403	-185	-650	-105	-20	-86	225,357	-1,046	-0.5%
Carmarthenshire	346,059	-295	-243	-168	54	-393	345,014	-1,045	-0.3%
Swansea	426,535	607	-255	57	378	233	427,556	1,020	0.2%
Neath Port Talbot	269,365	150	96	-117	10	9	269,514	149	0.1%
Bridgend	255,260	-106	-448	-17	-38	9	254,660	-600	-0.2%
The Vale of Glamorgan	222,840	-427	658	-133	-33	87	222,992	152	0.1%
Rhondda Cynon Taf	455,015	127	701	-29	-87	-91	455,637	622	0.1%
Merthyr Tydfil	112,371	183	196	-75	-7	-3	112,666	295	0.3%
Caerphilly	339,574	-29	-265	-60	-79	152	339,292	-282	-0.1%
Blaenau Gwent	134,628	331	-102	-112	32	61	134,838	209	0.2%
Torfaen	171,021	85	458	-81	-2	-22	171,459	438	0.3%
Monmouthshire	147,471	-233	169	-82	-14	92	147,403	-68	0.0%
Newport	281,984	284	1,211	40	41	102	283,661	1,677	0.6%
Cardiff	611,412	1,150	611	1,250	185	508	615,115	3,703	0.6%
WALES	5,656,897	0	0	0	0	0	5,656,897	0	0.0%

Notes:

Figures do not indicate actual funding allocations for 2019-20 and only exemplify some of the updates for the 2019-20 settlement. Other updates could have a significant impact

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 2018 PLASC data (including EOTAS pupils and taking a three year average of the FSM data).

c) Distribution changes resulting from updating from 2014-based 2018 population projections to 2014-based 2019 population projections and the update of Wrexham's prisoner

d) Distribution changes resulting from an updating the construction of the RO build (see section 3.1.25)

e) 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.

ANNEX D: DISTRIBUTION SUB GROUP WORK PROGRAMME 2018

The work programme for 2018 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
General Items			
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>	Simon / Rob	Not transferring until 2019-20 at earliest. For consideration by DSG from March 2018 [SE/RH]
Supported Housing	Responsibility for part of the supported housing element of housing benefit is transferring from the DWP to the Welsh Government. One of the options is to transfer this funding into the settlement.	LGFP / Policy team	Unlikely to happen before 2020-21 at the earliest. Oral item for May 2018 [SE/RH]
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.</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</p>	LGFP	DSG to consider from March 2018 [AC/SE]

Item	Description	Resource	Timing / action
	changes beyond 2018-19 which affect the distribution of resources to local authorities, such as the changes to housing benefit due to be implemented for 2019-20.		
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-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.	LGFP / Pool Rate working group	DSG to consider the advice of the Pool Rate Working Group in summer 2018 [SE/AW]
Tax base data	Investigation into the distributional implications of changing the council tax increase assumption in the formula. Investigation into the treatment of discretionary discounts in the tax base used for calculation in the settlement.	LGFP	Start now. Investigate with possibility of taking paper to March meeting [SH/SE]
Free School Meal Indicator	DSG has expressed concerns at the volatility of this indicator. Analysis will be carried out to look at the potential for greater stability.	LGFP	March [JL/SE]
Review of the Revenue Outturn and Revenue Account data within the SSA Build	The Revenue Outturn and Revenue Account data within the SSA Build have not been reviewed for a number of years. The DSG specified in 2017 that they would like to consider this in more detail – particularly the ‘other service’ category.	LGFP	March [SH/AC]
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.	LGFP	March / July [JL/SE]
Specific Grants			
Welsh Independent Living Grant	To consider the distribution of the grant in 2019-20 and future years, following the transfer of this funding into the settlement on an actual basis in 2018-19.	LGFP / Policy team	Oral item January. Further paper from May [SE/RH]

Item	Description	Resource	Timing / action
Community Grants Flexible Funding Review	DSG to keep abreast of the flexible funding review and to consider any distributional issues as appropriate	Policy team	Oral item January [RH/SE]
Other potential transfers into and/or out of the settlement	To consider other potential transfers into the settlement at the appropriate juncture.	LGFP / Policy teams	Monitor situation with policy.
Annual standing papers			
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.	LGFP	July
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.	LGFP	July / September
DSG Progress Report	A report of the progress of the DSG against the 2018 work programme up to July 2018, for presentation at the Finance Sub Group (FSG) meeting on 11 July.	LGFP	May (or late June via correspondence)
DSG Report	The final report of the DSG to be signed off by the Finance Sub Group (FSG) on 27 September 2018.	LGFP	September

Longer Term Considerations

Item	Description	Resource	Timing / action
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.	LGFP / Local Government DSG members	DSG to consider from March and Review progress at the November meeting [AC/SH]
Modernising Waste Formula	<p>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.</p> <p>A technical sub group of DSG has been considering the data analysis and modelling assumptions needed to develop a revised formula.</p>	LGFP	DSG to consider from March and Review progress at the November meeting [SE/JL]
Enabling Local Government Reform	Funding arrangements need to be considered to ensure they remain fit for purpose.	TBC	TBC
Taking Wales Forward	The Welsh Government's 'Taking Wales Forward' includes commitments to reform local government funding arrangements and to put in place a floor for future local government settlements. Both these commitments have potential implications for the work of DSG. The work programme therefore needs to include engagement with these elements of work at the appropriate time.	LGSF	TBC
Simplification	Since the last overarching review of the formula methodology, a number of additional services have been added to the model to ensure the formula takes account of changes in local authority responsibilities. With the greater focus on the fitness of the formula for the future because of local government reform and 'Taking Wales Forward' commitments, this is an appropriate time to consider the scope for simplifying the formula without materially changing the way it reflects the relative need to spend.	LGFP	TBC [SH/AC]