

**DISTRIBUTION SUB GROUP (DSG)**

**Minutes of meeting held on 23 January 2020 at Cathays Park, Cardiff**

**Welsh Government (WG)**

Judith Cole (chair)

Simon Edwards

Emma Smith

Ashley Caddick

Heather Haywood

Averil Petley (paper 1 only)

Stephen Gear (paper 1 only)

**Welsh Local Government Association (WLGA)**

Jon Rae (WLGA)

Carys Lord (VOG)

Hywel Jenkins (Neath Port Talbot)

Dilwyn Williams (Gwynedd)

Ian Allwood (Cardiff)

**Independent members**

Dr Dennis de Widt (Independent)

Guto Ifan (Independent)

Chris Barton (Independent)

**Apologies**

Debra Carter (WG)

Mark Howcroft (Monmouthshire)

Andrew Stephens (Data Cymru)

Jane Thomas (Powys)

Steve Gadd (Denbighshire)

**Welcome and Introductions**

1. The Chair recorded apologies and thanked everyone for attending.

**DSG (2020) Paper 1 – Funding a consistent rate for Foundation Phase Nursery provision and childcare within the Childcare Offer**

2. Welsh Government policy officials presented the paper.
3. It was highlighted that at present funding rates and the number of hours provided by local authorities for childcare vary considerably across Wales.
4. Due to the lack of uniformity in delivery of the service DSG were asked for their views on the three funding models provided in the paper.
5. Members expressed that the variation in spend across authorities reflected local authority discretionary choices and therefore the three models presented were not aligned with the principle of the current local government funding formula where the impact of local choices is not taken into account.
6. It was highlighted by Welsh Government officials that one of the funding models specifically tries to avoid this issue, however they accept due to timing it is impossible to avoid it completely.
7. The general consensus was that the distribution model should be based on the notional schools formula (Nursery and Primary school teaching and other services IBA) to avoid rewarding frugality and any discretionary choices an authority has previously made.
8. Members questioned the timing of the grant and implementation of any potential change.

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9. Officials stated that if the funding is available in 2020-21 it would be provided to local authorities via the current Local Authority Education Grant, due to timings.
10. DSG confirmed that their collective recommendation was to use an existing settlement formula.
11. The chair invited officials to return to the March DSG for further discussion and welcomed correspondence in the meantime.

### **Minutes and matters arising from the previous meeting**

12. There were no comments of accuracy from the minutes of the previous meeting.

### **DSG (2020) Paper 2 – Terms of Reference, Paper 3 – Work Programme**

13. Members had no comments on the Terms of Reference paper.
14. Member asked for clarity on the item regarding the Pool Rate model in the work programme.
15. Welsh Government officials stated that the work of the sub-group had unintentionally deviated away from the main objective of the project, and that the focus had now turned to developing an improved debt financing model, while the task of developing a new pool rate still remains.
16. The chair concluded that a deadline and more stringent terms of reference will be given to the sub-group to ensure that they are sticking to the brief of developing a simpler and more relevant Pool Rate.
17. Members were concerned that, in reading the work programme, it does little to combat the argument that the formula is defective. They were keen for this to be presented in such a way that shows we are working towards solutions where the underlying data is no longer fit for purpose.
18. Members concurred that wording “longer term considerations” in the work programme needs to be changed to reflect that these are pieces of work that will take a longer time to complete but were underway now. It was suggested to, instead, talk in terms of “strategic considerations”.
19. **Action: Welsh Government officials to update the wording in the work programme**

### **DSG (2020) Paper 4 – Understanding and explaining the 2020-21 settlement**

20. Welsh Government officials highlighted that Annex A of the paper had been revised, and hard copies of the updated version were provided during the pre-meeting.
21. Officials presented the paper explaining the variations between the DSG report and the provisional settlement, such as: financial verification, and the treatment of the Welsh independent living grant (WILG) within the financial information.
22. The reasoning for the change in the financial information because of the treatment of the WILG was not clear to all members. They requested further information after the meeting.

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23. Members agreed that annex A should be incorporated in future settlement publications to aid users in their understanding of their settlement allocations.
24. DSG stated that treasurers need to be reminded that the DSG report is not the settlement and that changes can and will happen between the report being published and the settlement being announced.
25. The group queried whether the use of a historic three year average for the council tax increase to uplift the notional council tax calculation was still the most appropriate method.
26. Welsh Government officials highlighted that there was misinterpretation regarding the assumed increase of notional council tax, and stressed that 7.1% was not in fact used as an increase between 2019-20 and 2020-21.
27. Attention was drawn to the fact that the 100% tax bases were larger than usual this year. Members voiced that these data are usually updated between provisional and final settlements which would have resulted in large financial turbulence between the provisional and final settlement in a regular year.
28. Welsh government officials confirmed that this was due to ensuring a consistent treatment of the long term empty properties and second homes. If the data was unavailable for the provisional settlement then the methodology of the previous year would have been revised to reflect the consistent treatment to reduce the financial changes between the provisional and final settlement for authorities.
29. **Action: Additional explanation of changes between the financial information because of the treatment of the WILG.**
30. The following response was provided after the meeting:

“In updating the financial data within the DSG report, the WILG IBA was accidentally removed, as it was now captured in the RO data. Therefore what this column showed was the change in the financial data and the financial impact of no longer phasing WILG (moving the distribution from *75% historic expenditure and 25% PSS adults formula* straight to the *Adult PSS formula*), rather than gradually phased across several years. Members can also request for a practical example to be circulated if this is still unclear. “
31. **Action: Welsh Government officials to revisit the council tax uplift assumption and its implications within the settlement calculation.**
32. **Action: Welsh Government officials to include annex A in the suite of settlement tables for future years.**
33. **Action: Welsh Government officials to draft a document explaining the notional council tax element within the settlement calculation.**

### **DSG (2020) Paper 5 – Treatment of Council Tax Reduction Scheme (CTRS) in the financial model**

34. Welsh Government officials provided an overview of the paper to the group, highlighting the recommendation of Welsh Government, not to change the treatment of CTRS.

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35. DSG suggested that the caseload should be used instead of the CTRS expenditure to avoid perverse incentives and to also allow the funding to flow through the financial element as all other sectors.
36. Members decided that there is no need for this to be added to the 2020-21 work programme as Welsh Government officials are currently in the process of reviewing CTRS more widely.

### **DSG (2020) Paper 6 – Application of the council tax base in calculating the settlement uplift**

37. Welsh Government officials explained the background to the paper and the rationale behind re-basing the settlement calculation.
38. Members queried the need for rebasing if there is no floor and whether the example in figure 1 could include a third authority where it's 100% tax base remained constant to ensure better understanding.
39. **Action: Welsh Government officials to update and re-circulate figure 1 with a third theoretical authority included and to consider publishing a AEF change table in the settlement, where the previous settlement is not re-based.**

### **DSG (2020) Paper 7 – Working age population measure**

40. Welsh Government officials explained that historic pension ages are used to distribute funding within the settlement, and asked the group whether this indicator should be updated to reflect the most recent pension ages.
41. DSG agreed that this should be done.
42. **Action: Welsh Government officials to update the pension age to reflect the most up to date data for the 2021-22 Settlement onwards.**

### **Any Other Business**

43. Members questioned whether there was an update on fire fighters' pensions, but this was concluded to be outside the remit of the DSG.
44. A member queried that they had not been notified about the additional funding for business rates relief within the settlement. Welsh Government officials responded that this formed part of the written statement.
45. Members queried whether the work commissioned by Welsh Government on the back of the Children, Young People and Education (CYPE) Committee's recommendations around school funding was also looking at the funding formula. They noted that all formula discussions should go through DSG.
46. The chair explained that to her knowledge this was out of the remit of the work commissioned, but would discuss with education policy to ensure this was not the case.
47. **Action: Welsh Government officials to liaise with education policy contacts around the scope of the exercise.**

**Dates and venues of next meetings**

48. The future dates and venues of meetings are as follows:

- 18 March 2020, Welsh Government, Cardiff
- 12 May 2020, Welsh Government, Cardiff
- 1 July 2020, Welsh Government, Cardiff
- 15 September 2020, Welsh Government, Cardiff
- 18 November 2020, Welsh Government, Cardiff
- 20 January 2021, Welsh Government, Cardiff

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