

DISTRIBUTION SUB GROUP (DSG)

PROGRESS REPORT

July 2021

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Introduction

1. This paper sets out the key aspects of the remit of the Distribution Sub Group for 2021 and the progress in delivering against it.

Action required

2. Finance Sub Group (FSG) is asked to note.

Background

3. 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.
4. 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
5. 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.

Remit for 2021

6. The main objectives of the DSG for 2021 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.

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- To advise FSG on matters of stability and multi-year indications as appropriate.
- To prepare an annual report with recommendations for consideration by FSG.

Scope and requirements

7. In February 2021, 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.
8. The first section considers those items which have been identified as needing consideration in order 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 assess the free school meals indicator and its suitability going forward. The free school meals indicator is used as a proxy for deprivation in a number of elements of the formula.
- To consider other data sources to replace the Children in out of Work Families indicator within the settlement. This indicator is used as a proxy for deprivation in a number of elements of the formula.
- To monitor the emerging impact of welfare reform on the data used in the formula.
- 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 monitor the treatment of the population indicator source.
- Recalibrate the weightings of the non HRA indicator and look to replace the current homelessness indicator.
- To review the assumptions which underpin the assumed interest rate for the debt financing element of the formula (Pool Rate) to ensure the assumptions underpinning the calculation of the interest rate continue to be consistent with the overall borrowing position.
- To examine the distributional implications of potential transfers into and out of the settlement.
- To consider the impact of expenditure responding to the COVID-19 pandemic on the underlying settlement data.
- 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.

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Longer term considerations

- To consider the position regarding the two technical sub groups that were created to look at the potential for developing an alternative approach to the education and waste elements of the formula, and whether this work stream should continue to be developed through the sub-groups or whether other options are available to progress the work.
- 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.

Progress

9. DSG has met twice since the February meeting of FSG. The following gives a summary of the actions and proposals arising from these meetings, as well as discussions that have happened since the DSG last reported to the FSG in September.

Shorter term progress

Improving tourism data

10. DSG considered the potential for improvements to the tourism data used in the settlement. The group decided not to implement this between provisional and final settlements, but to use this data from 2022-23 onwards.

Decision: No changes to be made to the tourism dataset between the provisional and final 2021-22 settlement, Airbnb figures to be included in tourism dataset for 2022-23 settlement onwards.

Balance of NDR and RSG funding

11. The police settlement funding is being investigated to see whether there is an opportunity to simplify the current arrangements by removing the NDR element and increase the RSG element by the same amount, meaning the LA settlement would subsequently have 100% NDR, rather than 95%, and the Welsh Government element of Police funding would be funded 100% RSG. Members noted that this sounded reasonable and had no issues to raise. This will now be picked up with Welsh Government lawyers.

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Jobseekers' allowance (JSA) data

12. The group considered the treatment of JSA data in the settlement, given that the breakdown into income-based and contribution-based JSA is no longer available. The group agreed to use the full dataset for the 2021-22 settlement onwards.

Decision: The group agreed to use total JSA claimants for future settlements, in the absence of a breakdown between income- and contribution-based data.

Treatment of frozen datasets for 2022-23 settlement

13. DSG noted that we are not in a position to take datasets out of long term freezes at present, and so analysis on latest position and impact of those data collections due in August is needed. The group considered it will be some time before unfreezing is possible and will have to be done on a case by case basis, whilst considering both SSA distribution and length of time the datasets have been frozen. It was noted that due to the fact we are in a Census year it may not be the best time to be looking at unfreezing the Census-based datasets.

Recommendation: Consider unfreezing datasets on a case-by-case basis.

Unemployment benefits dataset update

14. The DSG considered a paper looking at the impact of the COVID-19 pandemic on unemployment benefits datasets. The paper only covered the first 2 quarters of the latest data year, but showed that some employment benefit caseloads had doubled. The group agreed that they would need to see the full dataset (in September), to make a full assessment, but cautioned against freezing as the unfreezing could result in a large step change.

Coastal Risk Management Programme (CRMP)

15. Members considered a paper looking at adjusting the amount and distribution of funding that transferred into the settlement for the CRMP, in light of projects being delivered under budget.

Recommendation: The difference between the forecasted and actual cost to be transferred out of the settlement, when the actual costs are lower than the forecasted.

Gate fees potential transfer in

16. The DSG discussed the potential to transfer funding for gate fees charged by waste management companies to local authorities for the provision of waste management services undertaken at their facilities into the settlement. The group queried whether there had been discussions on handling at a political level. A meeting has been set up between the Welsh Government, the WLGA and Local Partnerships to discuss further.

Free School Meals

17. Members considered a discussion paper on Free School Meals eligibility (eFSM) data and were asked whether analysis should be undertaken to assess the distributional impact of including pupils who are transitionally protected as part

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of the eFSM data. The group agreed that this should be considered. This will be considered at a future meeting.

Revenue Account (RA) and Revenue Outturn (RO) data

18. The DSG discussed the impact of the pandemic on the collection of the RA and RO data and the implications for the 2022-23 settlement. The group asked for consistency between the RO and RA return and the information required for the statement of accounts. Through discussions with Welsh Government Statistical colleagues and local government finance officers, the RO and RA forms have been designed to strike a balance between granularity of information and additional burden on local authorities.

Indicator Based Assessment (IBA) formula reviews

19. The group considered the dates at which each of the individual IBA formulae were last reviewed and/or updated and the relative financial weighting of each. Members noted the dates of the reviews and updates but thought this didn't detract from taking a strategic, rounded review of the system. Local government members of the DSG stressed that the implications of distribution on relative need had to be understood in the context of absolute need and the quantum of funding available.

Pool Rate of interest

20. The group considered a paper, which set out the issues with the current pool rate methodology and some of the discussions and suggestions that resulted from the work of the Pool Rate Working Group. DSG agreed that the current pool rate does not reflect a current real world interest rate. As a result they considered reverting to the old pool rate methodology, but prior to recommending this the group wished to understand the financial implications of the change which will be considered either via correspondence or at a future meeting.

Population data for 2022-23

21. The group were presented with a paper to show the difference between two population datasets: projections and mid-year estimates. Members were informed that the population projections data (forward looking) were created based on assumptions prior to the Covid-19 pandemic. The mid-year estimates (backward looking) would include the data from the first wave of the pandemic. The group concluded that the best source of population data is the Census, and would continue using the population projections data until information from the Census becomes available in 2022.

Recommendation: To continue using the population projections data until information from the Census becomes available in 2022.

Longer term progress

Education and Waste Sub Groups

22. During the course of the pandemic, the work of the education and waste sub groups was paused. The DSG are considering whether this work stream should continue to be developed through the sub-groups or whether other options are available to progress the work stream.

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23. External factors, such as the taxation work colleagues in Local Government Strategic Finance are doing, may also have an effect on the whole formula. It was stressed that there needs to be a sense of joint enterprise around the waste and education subgroups and that it may be better to assign a dedicated resource to this, if the appetite to continue these reviews was there at this time.

**Local Government Finance Policy and Sustainability Division
Welsh Government**