

DISTRIBUTION SUB-GROUP (DSG)

Minutes of meeting held on 20 May 2025 via Microsoft Teams

Welsh Government (WG)

Judith Cole (Local Government Finance Policy & Sustainability) - Chair
Emma Smith (Local Government Finance Policy & Sustainability)
Andrea Melvin (Local Government Finance Policy & Sustainability)
Simon Edwards (Local Government Finance Policy & Sustainability)
Rhiannon Jones (Local Government Finance Policy & Sustainability)
Freya Gregory (Local Government Finance Policy & Sustainability) – Note Taker
Oliver Griffiths (Local Government Finance Reform)
Clare Blake (Local Government Finance Reform)
Lea Beckerleg (Transport Strategy & Policy)
Francesca Marino (Education Infrastructure, Governance & Finance)

Welsh Local Government Association (WLGA/ LA)

Jon Rae (WLGA)
Nathan Gardner (WLGA)
Lisa Hayward (WLGA)
Hayley Randall (Data Cymru)
Jane Thomas (Powys)
Dewi Aeron Morgan (Gwynedd)
Jonathan Davies (Monmouthshire)
Ian Allwood (Cardiff)
Liz Thomas (Denbighshire)
Duncan Hall (Ceredigion)
Carys Lord (Bridgend)

Independent members

Chris Barton (Independent)
Dr Dennis de Widt (Independent)
Guto Ifan (Independent)

Apologies

Barrie Davies (Rhondda Cynon Taf)
Huw Jones (Neath Port Talbot)

Item 1: Welcome, Apologies and Introductions

1. The Chair welcomed the group to the meeting, recorded apologies and introductions were made for the benefit of new members Hayley Randall and Simon Edwards. The group agreed to the use of copilot to draft the minutes of this meeting.

Item 2: Minutes and matters arising from the previous meeting (30 January 2025)

2. The group agreed the minutes from the last DSG meeting, after noting edits were made to amend Chris Barton's representation from 'Fire' to 'Independent'.

Item 3: Oral Item – Council Tax Policy Updates

3. Clare Blake gave an update on council tax policy. Clare described a consultation paper that would be released on 23 May, which would conclude a review of 53 council tax discounts, exemptions, and disregarded people as part of the PFG commitment to fairer council tax.
4. Clare clarified that the single person discount would not be removed and that this had not been suggested as part of this work. Clare outlined the proposals made by the review:
 - A two-year limit on the exemption from council tax for properties awaiting probate after the owner's death, addressing instances where some properties have remained exempt for decades.
 - Allowing each new property owner to receive a 12-month council tax exemption for structural alterations and refurbishment to the property, addressing complaints from individuals who were unaware that previous owners had already utilised this exemption.
 - A time limit on the tax exemption for empty properties owned by religious communities, despite the small number of such properties in the tax base. Views were sought on the length of time this exemption should be available.
 - Uprate the earnings threshold for apprentices as the current threshold does not meet the national minimum wage for apprentices.
5. The group agreed with Clare that the impact of the proposals on the tax base would be minimal and thus unlikely to require any changes to the settlement. However, the group would wait for the impact assessment to be assured of this decision which would be informed by the revs and bens group.
6. Clare reminded the group that a revaluation in 2028 would still be going ahead, as it has been written into primary legislation, and asked the group to keep it in mind with regard to the settlement. She confirmed the IFS had been contracted for a further three years taking the work to the 2028 deadline, which allows for investigating the impact on different household types, and the redistribution of RSG, this had so far been consistent with work done internally which was reassuring.
7. Jon Rae queried the impact of a possible new government on the council tax reform timeline. Clare explained that, although the date of revaluation is written into primary legislation, a new government would have regulatory powers to change the date; however, due to the short timeline this would require work to be done as soon as a government was formed.

8. Duncan Hall queried the system and resourcing challenges of the Valuation Office Agency (VOA), and the impact this may have on its ability to carry out this work. Clare agreed and explained that the VOA was undergoing an IT transformation program, funded by the Treasury and HMRC and this work programme had impacted their case work capabilities. The VOA plans to be on track with operations by October this year. The council tax reform team has put temporary additional monitoring, governance, and scrutiny around their performance targets.

Item 4: Oral Item – Update on the School Funding Formula

9. Francesca Marino gave a presentation on the upcoming consultation on proposed changes to the school funding regulations in Wales, highlighting the complexities in the current school funding system, as identified in previous reports by the CYPE committee and Luke Sibieta. These reports revealed significant variations in how funding is managed across different local authorities.
10. The key proposed changes to the school funding regulations aim to make the system more consistent, comparable, and transparent. These changes include:
 - Strengthening the requirements for publishing funding distribution details to provide more clarity and a template for better information presentation.
 - Clearly distinguishing between core funding (essential for running schools) and discretionary funding (additional functions) to improve transparency.
 - Offering a user-friendly template for local authorities to present funding information in the legally required format, making it easier to compare data across schools.
 - Requiring the use of a singular source of pupil numbers for the funding formula, streamlining the process and enhancing comparability between local authorities.
 - Ensuring local authorities clearly identify which factors in their funding formulas address social deprivation, improving clarity.
 - Changing the threshold for local authority intervention on surplus balances from a monetary value to a percentage, making it more proportionate to each school's budget.
 - Firming up the processes for addressing and resolving deficits, ensuring consistent and effective management across all local authorities.
 - Offering amalgamation of budgets and financial reporting requirements for schools within a federation, allowing more streamlined financial management for federated schools.
11. Fran assured that the proposed changes were developed with significant engagement from a working group consisting of representatives from nine local authorities. She outlined the next steps, including a planned consultation on the proposed changes in June with changes to the regulations if approved to come into force in April 2026. Following this, there will be a period for local authorities

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to consider and consult on any necessary amendments to their formulae and processes, with the aim of applying these changes from April 2027. This allows LAs an additional year to plan for the changes.

12. Ian Allwood asked why the ability to use a percentage for surplus balances was suggested as a change when some local authorities have been using that mechanism already. He noted the need to ensure comparability between schools within each local authority was more important to LAs than comparability between local authorities. He queried the use of PLASC, as it is not able to capture pupil mobility as clearly as is needed in high mobility areas as it looks backwards rather than looking ahead. The group agreed this point and raised that the timing of the PLASC data would not be helpful for the budget planning.
13. Fran thanked the group for the discussion and suggested a large part of the review was gaining clarity and transparency through the reporting of funding to understand what local authorities are doing within the school funding formula and compare more equally between them. Fran asked the group to engage with the consultation with points like these so they can be considered fully.
14. Jon Rae queried the policy input into the local government formula review of the education IBAs. The group agreed there should be a clear correlation between the approaches of the school funding formula and the education elements of the local government settlement. Judith Cole introduced Simon Edwards to the group and confirmed his work as the lead on the formula review would include engaging with policy colleagues to decide the best mechanisms of distributing un-hypothecated funding in relation to individual sectors.
15. Jon noted that the definition of the Eligible for Free School Meals (eFSM) indicator used in the local government settlement is not consistent with that used for the Pupil Development Grant (PDG). Jon queried if there was any work ongoing to investigate this discrepancy. Fran explained that there is ongoing research related to eFSM indicators and social deprivation indicators that aims to explore how these indicators can be used in grant funding formulas. Although the first stage of the research has been delayed, it is still in progress. Additionally, there is another piece of work focusing on PDG funding distribution. Due to changes in eFSM numbers over the past few years without corresponding budget changes, a smoothing element has been introduced in PDG funding. Fran assured that all this work would be ongoing and DSG would be kept up to date with the findings.

***Action – Francesca Marino to circulate links to the consultation when live.
[completed – sent to SWT 24/6/2025]***

Item 5: Paper 4 – Employer NI Contributions

16. Emma Smith introduced Paper 4 and advised an announcement on NI funding was expected later in the week. She confirmed the figure quoted within the paper (£82.5million) was for illustration purposes only and not an indication of funding.
17. Emma noted the group had previously agreed to the principle of a distribution method which would transition into the settlement the following year without creating additional churn. Emma then described the three options of distribution

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that were exemplified within the paper: Option one uses actuals reported through the WLGA, option two uses the whole funding formula, and Option three uses the elements of the formula which include staff costs.

18. The group raised ongoing concerns about the validity of the data used for the actuals exemplifications and suggested further validation with local authorities, WLGA and Welsh Government for the sake of exemplifications and distribution if option one was to be taken. It was suggested to use the RO data returns to validate the current dataset.
19. Duncan Hall suggested it may be prudent to wait for understanding of the funding available for local authorities before making a final decision as the quantum would have an impact on the palatability of each option depending on how close it is to the demand. Judith Cole suggested a prompt decision would be beneficial from DSG to allow LAs time to plan.
20. Jonathan Davies raised concerns that the rationale for formula-based distribution would be to not penalise those local authorities that have larger proportions of indirectly employed staff. However, when looking at the exemplifications there are some LAs that have a large proportion of directly employed staff but benefit further from formula distributions.
21. The group sought to understand whether the ONS definition of directly employed staff was binding, as this would inform the distribution method. Emma clarified that the ONS definition was set by the UK Government not Welsh Government, and the distribution of this funding for local authorities in England had been done on a formula basis, so there is flexibility for DSG on the distribution method.
22. WLGA and the settlement team agreed to quality assure the data and go to DSG in correspondence for an agreement on the distribution method for this funding before the next FSG in July.
23. Emma Smith went on to explain the four options available to distribute funding for fire authorities as they levied £4 million. These were : option one, add this to the total funding and distribute on the agreed option for local authority staff; option two, to collect exact information from fire authorities and fund specific amounts pro rata to the total available to relevant authorities; option three, to fund based on the total Fire SSA; and option four, to fund based on the fire service IBA.
24. The group agreed that the same principal should be followed for both the fire costs and the local authority staff costs.
25. Emma Smith asked the group if they were content to provide any additional funding for National Parks through a grant. The group agreed this approach to additional funding for National Parks.
26. Emma Smith asked for the group's thoughts on the treatment of HRAs. Some local authorities have HRA and related staff, which are included in the revised estimates provided to Welsh Treasury. Where local authorities do not have HRA, housing associations provide the housing services. They are not covered by the definition of public sector, and as no additional funding will be available to housing associations, they would need to cover their costs by increasing rent or making other efficiencies. Emma posed the question whether HRA and housing

associations should be treated in the same way. The group agreed there should be parity of treatment between HRAs and housing associations. However, Ian Allwood queried whether this was a decision for DSG, as it should be a Welsh Government decision of how to treat RSLs and HRAs. The group agreed that this should be decided by housing policy colleagues. Judith Cole agreed she would discuss this with housing policy colleagues.

Action – Settlement team and WLGA to work through RO data to test against the current staff costs dataset.

Action – Settlement team to investigate distribution on actuals against the formula distribution and its impact on funding indirectly employed staff.

Action – Settlement team to circulate paper with validated data for a DSG decision through correspondence by July FSG.

Action – Settlement team to discuss HRA and RSL funding with housing policy colleagues [completed. Confirmed no policy intention to treat HA and HRA differently and no specific funding for HAs].

Item 6: Any Other Business

Regional Transport Plan

27. Lea Beckerleg gave an overview of the work towards a regional transport grant which would amalgamate several transport grants. Lea asked the group for feedback and advice on the indicators and formula that could be used to distribute this grant, and how best to gain feedback from stakeholders, including local authorities on this work. Lea explained that a decision on the distribution of the funding would be sought over summer.

28. The group suggested the need for understanding the aim of each of the grants being consolidated and the policy intent of the new grant for the formula to be designed to fund appropriately, with indicators chosen that best align with that intent. Jon Rae suggested the use of the GCF formula as the funding being discussed is mainly capital funding. The settlement team agreed to share the GCF model with Lea.

29. Lea Beckerleg queried whether it would be appropriate to ask stakeholders what indicators they would prefer. The group advised it may be more beneficial to give a suggestion of a formula and ask for feedback on that, to simplify the paper for stakeholders and streamline the expected feedback.

30. Action – Lea Beckerleg to provide the full briefing pack to DSG.

31. Action – Settlement team to share the GCF formula with Lea Beckerleg.

Population statistics

32. Andrea Melvin gave an update on ABPE¹s explaining that these would not become the official statistics in 2025 - meaning the official population estimates for 2025 would be based on the current methodology. The ONS planned to use

¹ Admin Based Population Estimates

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ABPEs as official statistics in 2026. The reason for this appears to be the need for further validation, including the treatment of young persons of working age population, particularly university students. The ONS are going back to local authorities to gain feedback on the data sources they will use for these populations. The ONS plans to publish ABPEs for 2024 and revisions from 2022 to 2024, so they can be reviewed and challenged where necessary.

33. The group agreed to continue discussing the ABPEs and available population datasets in the following DSG meeting.

Action – Hayley Randall to circulate the ONS Newsletter to the group.

Dates and venues of next meetings

34. The provisional future dates of meetings are as follows:

Proposed Dates

Wednesday 02 July 2025 – Hybrid (CP2) (10:00 – 14:00)

Thursday 17 September 2025 – Teams (10:00 – 12:00)

Thursday 20 November 2025 – Teams (10:00 – 12:00)

Actions Outstanding

	<u>Action</u>	<u>Owner</u>	<u>Date raised</u>	<u>Date completed</u>
1	Francesca Marino to circulate links to the consultation when live.	Francesca Marino	20/05/2025	Completed 24/06/2025
2	Settlement team and WLGA to work through RO data to test against the current staff costs dataset.	WG Settlement team / WLGA	20/05/2025	Completed 02/07/2025
3	Settlement team to investigate distribution on actuals against the formula distribution and its impact on funding indirectly employed staff.	WG Settlement team	20/05/2025	Completed 02/07/2025
4	Settlement team to circulate paper with validated data for a DSG decision through correspondence by July FSG.	WG Settlement team / WLGA	20/05/2025	To be taken to DSG 02/07/2025
5	Settlement team to discuss HRA and RSL funding with housing policy colleagues	WG Settlement team	20/05/2025	Completed 4/6/2025
6	Lea Beckerleg to provide the full briefing pack to DSG.	Lea Beckerleg	20/05/2025	Completed

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7	Settlement team to share the GCF formula with Lea Beckerleg.	WG Settlement team	20/05/2025	Completed
8	Hayley Randall to circulate the ONS Newsletter to the group.	Hayley Randall	20/05/2025	Completed
	<u>Actions (Ongoing)</u>	<u>Owner</u>	<u>Date raised</u>	<u>Date completed</u>
1	Settlement team to assess the wording of terms of reference regarding specific grants and engagement with other departments regarding DSG's inclusion within specific grants decision making.	WG Settlement team	30/01/2025	Ongoing work to engage Welsh Government departments regarding specific grants.
2	Settlement team to investigate the integrity of eFSM or TP data in relation to schools' populations and benefits data	WG Settlement team	19/09/2024	Ongoing
3	Council Tax Reform item to be included on the agenda for future DSG meetings	WG Settlement team	21/05/2024	Ongoing, discussions will be regularly held with DSG
4	WG Settlement team to present the Nursery and primary Schools recalibration analysis and progress the conversation with Education officials and ADEW	WG settlement team	21/05/2024	Ongoing discussion
5	Ensure DSG kept informed of the work by Education Dept on the work on school funding formula	WG settlement team		Update discussed at 20/05/2025 DSG, will continue to engage DSG with this work.

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