

***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.***

**\*\*\* Note: This paper has been updated with the final agreed work plan, following comments from the DSG at the September 2025 meeting \*\*\***

## **Formula Review Work Plan**

### **Summary**

1. This paper outlines the proposed 2025-2027 work plan for reviewing the local government funding formula. It focuses on updating Census-based indicators and recalibrating Indicator Based Assessments (IBAs), with implementation targeted for the 2028-29 settlement.

### **Views sought**

2. DSG is invited to:
  - Discuss and agree the proposed scope, priorities, and timeline of the review.
  - Endorse the approach to stakeholder engagement and data collection.
  - Support the principle of implementing updates in a single settlement year.

### **Background**

3. The local government settlement funding formula review was initiated following DSG discussions, and the need to replace outdated Census indicators that currently distribute around £1.4bn of SSA. A pilot began in 2024 with Nursery and Primary IBAs. This work plan sets out the next steps, including expansion to other education, Personal Social Services (PSS) and other IBAs.

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# Local Government Funding Formula Review: 2025-2027

Funding Formula Review Work Plan – September 2025

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## Introduction

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The Welsh Government is undertaking a phased, data-led review of the local government funding formula. This review is being delivered in partnership with local government through the Distribution Sub-Group (DSG), with political oversight provided by the Finance Sub-Group (FSG) of the Partnership Council for Wales.

While this review represents a significant and coordinated programme of work, it builds on the DSG's established role in maintaining and updating the local government settlement. The DSG has long operated a rolling programme of formula, indicator and data review – as well as considering relevant policy, financial reporting and methodological changes – through which updates are developed and agreed in partnership with local government.

The review will primarily focus on replacing outdated Census-based indicators (from 1991 and 2001, which distribute around £1.4bn (18.5%) of SSA) with 2021 Census data. This involves recalibrating indicator weightings and reviewing the selection of indicators to ensure they still provide the best reflection of current relative need to spend.

The initial pilot phase, which began in 2024, targeted the Nursery and Primary notional service (Indicator Based Assessment (IBA)) within the local government settlement funding formula. The next step is to expand to the Secondary and Special Schools IBAs, and begin assessing the data collection requirements for the more complex Personal Social Services (PSS) IBAs, before moving on to the remaining IBAs that rely on Census data. In response to discussions at DSG, there is also the potential to review the non-Housing Revenue Account (HRA) IBA, considering the changing patterns of local authority expenditure relating to homelessness.

The review will be conducted with expert input from Knowledge and Analytical Services (KAS) and Data Cymru and requires close collaboration with local authorities, Ministers, policy officials, and policy and analytical experts. Additional full-time resource has been secured within the Welsh Government, and Data Cymru has committed capacity to support data collection and analysis. Consideration is being given as to whether further, full-time analytical resource is required.

This is a technically complex and resource-intensive programme of work. It involves rebuilding multiple formulae from first principles, collecting new service-level data from local authorities, and subjecting all proposals to rigorous peer review and validation. The two-year timeline is challenging given the scale of modelling, consultation, and governance required, while being mindful of the demand it places on local authorities at a time when analytical capacity is already stretched. Ensuring the robustness and credibility of the final outputs will require careful sequencing and sustained collaboration across all partners.

The intention is that all major updates to IBAs would be implemented in the same settlement year, to maintain consistency, using the most recent financial data available at that time (summer/autumn 2027). Implementation is currently targeted for the 2028–29 settlement, aligning with Council Tax reform. At that time, a damping/phasing mechanism will also be considered to manage the short-term distributional impacts. Consideration will also be given to the appropriateness of the deprivation grant IBA, in light of the other changes.

The review will also consider the administrative burden that could be placed on local authorities, including the potential need for additional analytical capacity, and will draw on lessons from similar work in Scotland and England.

## Workstream 1: Scoping and Planning (Autumn 2025)

### **Objectives:**

- Define scope and sequencing of IBA reviews (following pilot on Nursery and Primary Schools IBA) (see Annex A for initial proposals).
- Confirm resource availability.
- Confirm data collection strategy.
- Secure agreement from DSG and FSG on more detailed approach.
- Confirm lessons learned from work being carried out in Scotland and England.

### **Tasks:**

- Review the work being carried out in Scotland and England and take note of anything relevant to the review in Wales.
- Review the process for recalibrating all IBAs using 1991/2001 Census data.
- Prioritise high-value IBAs: Education and PSS.
- Confirm data collection needs, including specifically for Children and Young Persons (CYP), Older People, and Younger Adults PSS IBAs.
- Paper to DSG and FSG setting out the work plan.

### **Dependencies:**

- IBA summaries and historical review data.
- Data experts in KAS.
- Agreement from DSG and FSG.

## Workstream 2: Main Education IBAs Recalibration (Autumn 2025 – Spring 2026)

### **Objectives:**

- Update Nursery & Primary, Secondary and Special Education IBAs.

### **Tasks:**

- Apply regression and multilevel modelling to updated indicators.
- Confirm sparsity thresholds.
- Assess current indicators (e.g. Free School Meal eligibility (eFSM)) and explore and consider the potential for alternative indicators.
- Assess impact on rural vs deprived authorities.

### **Dependencies:**

- Updated Census data.
- Pupil Level Annual School Census (PLASC) data.
- Work on an alternative to the eFSM data
- Population estimates/projections.

- School-level expenditure data.
- Ministerial engagement in the early stages of the review.
- DSG/FSG agreement on modelling assumptions and sign-off in principle.
- Welsh Government election and pre-election period.

### Workstream 3: PSS IBAs Recalibration (Winter 2025 – Autumn 2026)

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#### Objectives:

- Update Children and Young People (CYP), Older Adults, and Younger Adults PSS IBAs.

#### Tasks:

- Finalise expenditure data apportionment across services, to enable the re-calibration of the formulae.
- Launch client-level data collection, where necessary.
- Explore further Census and other data, in relation to modelling the deprivation-based need elements of the formula.
- Consider data options including full contact-hour data, aggregate hours, or proxy weights.

#### Dependencies:

- Welsh Government Social Care Policy teams.
- Local authority cooperation.
- Implementation of updates to local authority reporting systems.
- KAS and Data Cymru support.
- Revenue Outturn Data.
- Availability of data at low level geographies.
- DSG/FSG agreement on modelling assumptions.

### Workstream 4: Remaining Education IBAs Recalibration (Winter 2025 – Summer 2026)

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#### Objectives:

- Update the education (Nursery & Primary, Secondary and Adult and Continuing Education) transport IBAs and the School Meals IBA.

#### Tasks:

- Apply regression and multilevel modelling to updated indicators.
- Confirm sparsity thresholds.
- Explore and consider the potential for alternative indicators, particularly the *Dependent children in out of work families* indicator.

#### Dependencies:

- Updated Census data.
- Pupil Level Annual School Census (PLASC) data.
- Population estimates/projections.

- Revenue Outturn data.
- Deprivation-based data.
- DSG/FSG agreement on modelling assumptions.

## Workstream 5: Other Census-based IBAs Recalibration (Summer 2026 – Spring 2027)

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### Objectives:

- Update the remaining IBAs with a Census-based element, namely:
  - o Public transport revenue support
  - o Recreation
  - o Cultural services
  - o Other environmental health and port health
  - o Refuse collection (also a need to consider changes to the service, such as a significant shift towards recycling).
- Update the non-HRA IBA.

### Tasks:

- Apply regression modelling to updated indicators.
- Confirm sparsity thresholds.
- Explore and consider the potential for alternative indicators.

### Dependencies:

- Updated Census data.
- Revenue Outturn data.
- Deprivation-based data.
- Caseload-based data.
- DSG/FSG agreement on modelling assumptions.

## Workstream 6: Governance and Stakeholder Engagement (Ongoing)

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### Objectives:

- Ensure inclusive and transparent engagement with stakeholders.
- Feed in lessons learned from the work being undertaken in Scotland and England.

### Tasks:

- Regular updates and consultation papers.
- Two-way sharing of information to inform decision-making.
- Build consensus on methodology and implementation.
- Establish a feedback loop with local authorities, post-implementation.
- Continue a dialogue with Scottish Government and establish a contact in England on the work being carried out on their formulae development.
- Begin drafting technical documentation for peer review.

**Dependencies:**

- DSG and FSG meetings.
- The Welsh Local Government Association (WLGA) and the Welsh Local Authorities' Chief Executive Group.
- Engagement with the Association of Directors of Education in Wales (ADEW), the Association of Directors of Social Services (ADSS) Cymru, the Society of Welsh Treasurers (SWT), and Welsh Government policy and KAS teams.

## Workstream 7: Modelling and Impact Analysis (Autumn 2026 – Spring 2027)

**Objectives:**

- Assess distributional impacts and prepare for implementation.

**Tasks:**

- Re-run all regression models using the most up-to-date data.
- Simulate funding allocations under revised IBAs.
- Assess distributional impacts across authorities.

**Dependencies:**

- Completion of recalibration work.
- Updated financial and Census data.
- Council Tax reform modelling.
- Wider Local Government Settlement Team capacity to run iterations of the new formula.

## Workstream 8: Damping/Phasing and Deprivation Grant Review (Spring 2027 – Summer 2027)

**Objectives:**

- Design mechanisms to manage volatility.
- Assess interaction with other changes e.g. council tax revaluation
- Review the suitability of the Deprivation Grant IBA.

**Tasks:**

- Design and present damping mechanism options to manage volatility.
- Consider removal or integration of the Deprivation Grant IBA.
- Finalise recommendations for phased implementation.

**Dependencies:**

- Modelling outputs.
- Stakeholder feedback.
- Ministerial input.

## Workstream 9: Finalisation and Sign-off (Summer 2027)

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### Objectives:

- Secure final approvals and prepare for implementation.

### Tasks:

- Conduct peer review of modelling outputs and assumptions.
- Present final proposals to DSG and FSG.
- Secure Ministerial approval.
- Build in independent checks and validation.

### Dependencies:

- Completion of all prior workstreams.
- Peer review and validation feedback.
- DSG, FSG and Ministerial approval.
- Evaluation will consider distributional fairness, stakeholder confidence, and alignment with service needs.

## Workstream 10: Continuing IBA Recalibration/Review (Summer 2027 onwards)

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### Objectives:

- To review the remaining IBAs that were not considered as part of this review.
- To plan for the regular review of all IBAs.

### Tasks:

- Re-introduce the rolling 5-year IBA work programme for DSG.
- Plan and review the remaining IBAs that were not considered as part of this review.
- Consider whether there is any way to further streamline the formula, particularly in relation to the smaller IBAs, and whether these could be condensed.
- Regularly review all IBAs on a rolling 5-year basis, with larger scale review at key points (e.g. the release of Census data).
- Consider the lessons learned from the prior work
- Consider the potential for AI to assist

### Dependencies:

- Data availability.
- Welsh Government officials' capacity.
- DSG and FSG.
- Ministerial agreement.

## Timeline Summary

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The below table outlines the proposed timelines for each workstream. A Gantt Chart for this project can be found in Annex B.



Workstream	Detail	Timeline
1	Scoping and Planning	Autumn 2025
2	Main Education IBAs Recalibration	Autumn 2025 – Spring 2026
3	PSS IBAs Recalibration	Winter 2025 – Autumn 2026
4	Remaining Education IBAs Recalibration	Winter 2025 – Summer 2026
5	Other Census-based IBAs Recalibration	Summer 2026 – Spring 2027
6	Governance and Stakeholder Engagement	Ongoing
7	Modelling and Impact Analysis	Autumn 2026 – Spring 2027
8	Damping/Phasing and Deprivation Grant Review	Spring 2027 – Summer 2027
9	Finalisation and Sign-off	Summer 2027
10	Continuing IBA Recalibration/Review	Summer 2027 Onwards

## Roles and Responsibilities

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### Welsh Government:

The Welsh Government leads the strategic direction and technical execution of the funding formula review. WG officials are responsible for:

- Designing and managing the overall work plan, including timelines, milestones, and deliverables.
- Undertaking technical modelling, data analysis, and indicator development.
- Coordinating stakeholder engagement, including liaison with local authorities, professional bodies, and external reviewers.
- Ensuring governance standards are met throughout the review process.

### Distribution Sub-Group:

The DSG plays a central role in shaping the technical content of the review. Its responsibilities include:

- Reviewing and challenging the proposed methodologies, assumptions, and indicator choices.
- Providing expert input on sector-specific IBAs (e.g. education, PSS).
- Supporting the development of exemplifications.
- Endorsing the scope, priorities, and technical direction of the review before escalation to FSG.
- Acting as a conduit for feedback from local government stakeholders.

The DSG's role does not include consideration of the overall quantum of funding available and is limited to the distribution of the funding available, recognising that some authorities will gain funding as a result of the proposed changes, while some will lose funding.

### Finance Sub-Group:

FSG provides strategic oversight and political steer. Its responsibilities include:

- Reviewing and making recommendations on DSG-endorsed proposals in the context of broader funding policy and ministerial priorities.
- Advising on the acceptability and feasibility of proposed changes, including implementation phasing.

## **Cabinet Secretary with responsibility for Local Government**

The Cabinet Secretary provides political leadership and strategic oversight of the funding formula review. Responsibilities include:

- Setting the overall direction and priorities for reform.
- Endorsing key decisions on formula design and implementation.
- Ensuring alignment with ministerial objectives and wider Welsh Government policy.
- Representing the review in ministerial forums and external engagements.

## **Risks and Mitigation**

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### **Risks:**

- Delays in data collection.
- Limited analytical capacity.
- Stakeholder disagreement.
- Pre-election constraints.
- Changes in Welsh Government Policies.

### **Mitigation:**

- Early engagement.
- Phased implementation.
- Additional resource planning.
- Early and continued collaboration with Policy teams.

## **Conclusion**

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This workplan sets out a comprehensive and collaborative roadmap for recalibrating the local government funding formula in Wales. By grounding the review in robust data, transparent governance, and stakeholder engagement, the Welsh Government aims to ensure that future allocations better reflect current patterns of need and expenditure.

The phased approach allows for technical rigour, policy alignment, and practical implementation planning, with built-in mechanisms to manage volatility and support local authorities through the transition. As the review progresses, continued dialogue with partners and independent validation will be key to delivering a fair, credible, and sustainable formula for the 2028–29 settlement and beyond. This approach will run alongside plans for Council Tax reform, ensuring the impact of the formula recalibration and tax reform are effectively managed.

## Summary, and Initial Prioritisation, of IBA reviews

	2024-25 Final IBA (£m)	Formula Basis		
		Multi-level regression	OLS regression	Single indicator / client group Subjective
Main Education IBAs (Workstream 2)				
Nursery and primary school teaching and other services	1,319			
Secondary school teaching and other services	1,112			
Special education	353			
Main PSS IBAs (Workstream 3)				
Children and young persons	755			
Younger adults' personal social services	777			
Older adults' residential and domiciliary care	822			
Remaining Education IBAs (Workstream 4)				
Nursery and primary school transport services	44			
Secondary school transport services	74			
Adult and continuing education transport	13			
School Meals	73			
Other Census-based IBAs (Workstream 5)				
Public transport revenue support	20			
Recreation	170			
Cultural services	37			
Other environmental health and port health	49			
Refuse collection	256			
Remaining IBAs for Potential Review (Workstream 10)				
Road maintenance	168			
Other services	146			
Refuse disposal	117			
Non HRA housing <sup>1</sup>	93			
Street Cleansing	82			
Council tax administration	62			
Economic development	36			
Planning	36			
Street lighting	30			
Deprivation Grant	22			
Youth services	21			
Food safety	17			
Consumer protection	16			
Electoral registration	14			
Concessionary fares	11			
Adult and continuing education	5			
Road safety education and safe routes	4			

1. To potentially be included under workstream 5

## Local Government Funding Formula Review Gantt Chart

