

## **Distribution Sub Group (DSG) Overview, 28 September 2017**

### **Introduction**

1. At the July meeting of the Finance Sub Group (FSG), members expressed a desire to be kept better-informed of the work of the DSG and to have a greater role in shaping the work the DSG carries out.
2. This paper outlines the work of the Distribution Sub Group (DSG) and looks at potential work-streams for consideration in 2018 and beyond.
  - Section 1 outlines the remit and membership of the DSG and sets out the timeline for meetings and the relationship with the Finance Sub Group (FSG) and settlement timetables.
  - Using the 2017 work programme as an example, section 2 summarises the type of distributional issues considered by the DSG. Paper 4, to be considered under the next agenda item provides a more detailed report on the work undertaken in 2017 and the potential distributional impact.
  - Section 3 looks at the future work programme of the DSG and outlines possible work streams for consideration in 2018 and beyond.
  - Section 4 sets out how DSG proposes to ensure FSG is better-informed of the work of the DSG and to have a greater role in shaping the work the DSG carries out.

### **Section 1: Background information on the Distribution Sub Group**

3. The annual revenue settlement for local government (principal authorities) in Wales is distributed using a needs-based formula. The Distribution Sub Group (DSG) is a subgroup of officials which works to the Finance Sub Group of the Partnership Council for Wales. Its primary purpose is to ensure the settlement 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. The main principle governing the distribution of the Revenue Support Grant is that it is on the basis of relative need. This means that the formula should reflect the variations in the need to spend which might be expected if all authorities responded in a similar way to the demand for services in their area.
5. In addition, as there is a fixed amount of funding available for distribution to authorities, the formula aims to allocate this to enable a consistent level of service delivery across Wales, while assuming a standard level of council tax.
6. Beneath these overarching goals, there are well-established principles which guide the work of DSG, namely:
  - Equity (balance for relative need and for relative ability to raise resources)
  - Stability

- Clarity
  - Relevance
7. These principles ensure the selection of objective indicators of need are prepared on a consistent basis and to consistent standards across Wales and which are resilient to the policy choices made by different authorities.

#### Membership and governance

8. The DSG membership consists mainly of local authority Chief Finance Officers and Welsh Government officials. Membership also includes the Director of Resources for the Welsh Local Government Association (WLGA), a local authority Chief Executive and the head of Data Unit Wales. Local authority members attend as representatives of the WLGA rather than on behalf of individual authorities. Each region of Wales is represented.
9. In addition, there are three independent members, who provide specialist insight and ensure the work of the DSG is carried out in a fair and objective manner. Details of the DSG membership can be found in Annex A.
10. The DSG is chaired by the Welsh Government's Head of Local Government Finance Policy and the Welsh Government provides the secretariat. The work-plan is delivered jointly by the Welsh Government and local government. Details of the roles and responsibilities of members can be found in Annex B.

#### Timeline and interdependencies

11. The DSG meets every other month, beginning in January and finishing in November. Additional meetings can be added throughout the year if the group agrees there are issues that need to be dealt with outside of the regular schedule.
12. The DSG produces three main documents for consideration by the FSG:
- Work Programme – Considered at the January FSG meeting (following initial consideration at autumn meetings)
  - Progress Report – Considered at the July FSG meeting
  - DSG Report – Considered at the September FSG meeting
13. The **DSG Work Programme** sets out the planned work DSG intends to carry out over the coming year, as well as indications of longer-term projects. The work programme for the coming year is normally considered by the FSG at its January meeting.
14. The **DSG Progress Report** is an account of the DSG's discussions about the work programme and ensures FSG is kept informed of progress with the work programme and its potential effect on the upcoming and future settlement distributions.
15. The **DSG Report** sets out the recommendations made by the DSG. These are considered by the FSG at its September meeting, in advance of being implemented for the provisional local government settlement for the coming

financial year. The 2017 DSG Report is a separate agenda item for this meeting of FSG.

16. The November meeting of the DSG considers changes to the basis of the settlement distribution between the provisional and final settlements, as well beginning discussions on the work programme for the coming year.

## **Section 2: Distributional issues considered by DSG**

17. This section summarises the nature of issues considered by the DSG, using the work programme for 2017 as an example. It is split into two subsections: those items that will have an impact for the 2018-19 settlement and those items that have an impact from 2019-20 and beyond.

### ***Section 2a: Items that impact on the 2018-19 settlement***

18. Updating the reflection of need to spend: The final phase of changes to the Personal Social Services formula will re-distribute around £3 million of funding across the authorities.
19. Taking account of policy updates: The distributional impact of increasing the capital limits for residential care towards the planned £50,000 limit.
20. Updating population indicators: most notably taking account of the population projections for 2018-19 and the latest pupil census data.
21. Underlying data changes: The update to using the latest Revenue Budget and Outturn data for the 2018-19 Settlement will re-distribute around £1.8 million of funding. The update to using the latest School Census data for the 2018-19 Settlement will re-distribute around £4 million of funding.
22. Considerations arising from transfers into the settlement: Proposed transfers for 2018-19 considered by the DSG include the Welsh Independent Living Grant and the Social Care Workforce Grant. Further information can be found in paper 4.

### ***Section 2b: Items that impact on the 2019-20 settlement and beyond***

23. Reflection of need to spend: reviewing the methodology for the calculation of the debt financing element of the formula which has the potential to re-distribute up to £1 million of funding.
24. Policy drivers: Monitoring the implications of the rollout of Universal Credit and the impact on the latest eligibility for Free School Meals data. The exact financial impact of this work-stream is not yet known, although the Free School Meals eligibility indicators distribute around £125 million of funding.
25. Transfers into the settlement: Potential transfers for beyond 2018-19 considered by the DSG include the following:
  - Post-16 Learning Difficulties and/or Disabilities (LDD) Specialist Placements. In 2017-18, this grant totalled £12.481 million.

26. Longer term formula development: Topics that influence the longer-term direction of the work of the DSG that have been considered in 2017 are as follows:

- Updating Census-based indicators
- Reducing Complexity within the formula
- Alternative Methodologies, including a bottom up determination of cost drivers
- The use of forecasting to make the formula more forward-looking

### **Section 3: Future work programme**

27. This section sets out potential areas for the future work programme of the DSG – in particular possible areas for longer-term development. The application of the key principles set out in paragraph 6 is integral to each area. For example, considerations about stability would include options for phasing in changes.

#### Census data

28. The settlement formula currently uses two main types of census-based indicator from the 1991 and 2001 Censuses. These were introduced as part of the recommendations from the last major review of the formula and, although generally regarded as stable, there is an opportunity to update these indicators. This would be expected to improve the equity and relevance of the formula. Given the resource intensive nature of updating such data in the models, this is potentially a piece of work that could be contracted out to an external provider.

#### Simplification / reducing complexity

29. Since the last major review of the formula in 1999, it has expanded to take into account changes in local authority responsibilities. Currently, there are 50 services and 68 indicators to be updated each year. The larger and more complex the model becomes, the less transparent it is and the more difficult it is to understand. Also, as complexity increases, there is a greater risk of error and more time is needed to run the model and exemplify the effects of changes.

30. With the greater focus on the fitness of formula for the future in light of local government reform and Taking Wales Forward commitments, one possible item for inclusion in the future work programme is consideration of the scope for simplifying the formula, to make it more transparent, without materially changing the way it reflects the relative need to spend.

#### Alternative methodologies

31. The current, statistical regression-based approach of formula construction was recommended by the last fundamental review of the formula. This approach is also used elsewhere in other models for resource-allocation. The future work programme could include considering whether there are alternative approaches which are more transparent, while continuing to deliver against the key principles that guide the work of the DSG. To date, DSG has been exploring alternative approaches, including whether an approach based on a bottom up determination

of cost drivers might be feasible. The work to date has focused on two main areas.

#### *Education Formula*

32. 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. The work has identified the different aspects of schools expenditure and given some initial consideration to the drivers of spend for these components.

#### *Waste Formula*

33. 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. DSG has been considering what would be required in terms of data analysis and modelling assumptions to develop a revised formula.

#### More forward-looking data

34. The current formula primarily uses historic data to distribute funding between the 22 authorities. The future work programme could look at whether some form of forecasting would be appropriate, to make the model more forward-looking.

### **Section 4: Future engagement**

35. To ensure FSG is better-informed of the work of the DSG and to have a greater role in shaping the work the DSG carries out, it is proposed to strengthen the engagement between DSG and FSG through the following actions:
- a. FSG to agree that to be jointly briefed by officers and officials who are DSG members;
  - b. Draft and Final DSG Reports are circulated to the WLGA council/WLGA Executive as appropriate;
  - c. The same DSG Reports are circulated to local authority cabinet finance members.

### **Conclusions**

36. FSG members are asked to consider the potential work streams outlined in Section 3, with a view to providing a steer on which items they would like to see included in the future work programme of the DSG. Members are also invited to consider what prioritisation it places on these activities given the need to consider this alongside the available resources.
37. FSG members are asked to agree the future engagement actions outlined in paragraph 35.

## **Annex A: Membership of the DSG 2017**

### **Welsh Government – Local Government Finance Policy / Strategic Finance Division**

Robert Hay – Head of Local Government Finance Policy (Chair)  
Simon Edwards – Local Government Finance Policy  
Kim Swain – Local Government Finance Policy  
Shelley Heath – Local Government Finance Policy  
Euros Jones – Local Government Finance Policy (until March 2017)  
Debra Carter – Deputy Director, Local Government Strategic Finance  
Clare Blake – Local Government Strategic Finance  
Judith Cole – Deputy Director, Workforce and Social Partnerships (until March 2017)

### **Independent Members**

Prof Hugh Coombs  
Dr 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
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

## Annex B: Roles and Responsibilities of DSG Members

Organisation	Functions include:
Welsh Government	<ul style="list-style-type: none"> <li>• Advising Welsh Ministers on all aspects of the settlement.</li> <li>• Ensuring the settlement and its distribution, and the work of DSG, aligns with Welsh Government strategies and policies.</li> <li>• Drawing up and implementing settlement delivery plans, taking account of the availability of staff resources.</li> <li>• Defining and applying quality standards for the settlement and settlement products, including DSG deliverables.</li> <li>• Chairing DSG and providing the secretariat for meetings.</li> <li>• Drafting the DSG work programme.</li> <li>• Developing the formula and settlement models.</li> <li>• Providing exemplifications of formula and data changes.</li> <li>• Collecting and validating settlement data.</li> <li>• Drafting the DSG Report for agreement by DSG.</li> <li>• Coordinating Welsh Government input into the work of DSG.</li> <li>• Monitoring progress in delivering the work programme.</li> <li>• Publishing DSG and settlement products and outputs.</li> <li>• Presenting progress reports and recommendations to FSG.</li> </ul>
WLGA Lead	<ul style="list-style-type: none"> <li>• Agreeing and arranging local authority membership of DSG.</li> <li>• Representing the viewpoint of local government at DSG.</li> <li>• Coordinating local government input into the work of DSG, including input into the development and delivery of the work programme.</li> <li>• Securing buy-in from local government to DSG decisions</li> <li>• Collating and reflecting the collective local government view on DSG considerations and recommendations.</li> <li>• Advising members of WLGA Council and WLGA Executive of FSG and the Partnership Council for Wales on the work of DSG.</li> <li>• Communicating DSG matters to members of WLGA Council and WLGA Executive and senior officers.</li> </ul>
WLGA Representatives	<ul style="list-style-type: none"> <li>• Contributing to the drawing up of the DSG work programme.</li> <li>• Providing input on all matters relevant to the DSG work programme, representing the collective interests of local government.</li> <li>• Advising on the effect of proposed changes to the formula and data, including potential risks.</li> <li>• Providing input and making decisions on exemplifications and proposals presented to DSG, including the robustness of the proposed approach and supporting analysis.</li> <li>• Agreeing the DSG Report and its recommendations.</li> <li>• Working in partnership with the Welsh Government to ensure work-streams progress as set out in the work programme.</li> <li>• Contributing to the formulation and development of</li> </ul>

Distribution Sub Group – 15 November 2017  
 Paper 18 – DSG Overview and Work Programme (FSG paper for discussion)

<b>Organisation</b>	<b>Functions include:</b>
	<p>proposals and the delivery of work-streams, leading the delivery of work packages as appropriate.</p> <ul style="list-style-type: none"> <li>• Communicating DSG matters to local government elected members and senior officers.</li> </ul>
Independent Members	<ul style="list-style-type: none"> <li>• Providing independent input on all matters relevant to the DSG work programme.</li> <li>• Contributing to the drawing up of the DSG work programme.</li> <li>• Advising on the effect of proposed changes to the formula and data, including potential risks.</li> <li>• Providing input into the considerations and decisions of DSG.</li> <li>• Providing assurance that the DSG work programme, DSG Report and DSG decisions and recommendations are based on unbiased consideration of the available evidence and analysis.</li> </ul>