

**REPORT OF THE
DISTRIBUTION SUB GROUP
September 2021**

Distribution Sub Group (DSG) Report – September 2021

Contents

SECTION 1: INTRODUCTION AND REMIT	3
Introduction	3
The Distribution Sub Group	3
Purpose	3
SECTION 2: OVERVIEW OF THE 2021 DSG WORK PROGRAMME	4
SECTION 3: CHANGES TO EXISTING FORMULAE AND DATA ISSUES	6
Formula Development Activities	6
Data Issues	7
Welfare Reform Update	9
SECTION 4: SPECIFIC GRANTS	10
ANNEX A: MEMBERSHIP OF THE DSG 2021	11
Welsh Government – Local Government Finance Policy / Strategic Finance Division	11
Independent Members	11
Welsh Local Government Association representatives	11
ANNEX B: REPORT OF THE INDEPENDENT MEMBERS 2021	12
Objectivity and Fairness	12
The Work of DSG	12
Future Developments	12
ANNEX C: MODELLED IMPACT OF CHANGES ON THE 2021-22 TOTAL SSA* (NOT FINAL ALLOCATION)	15
DISTRIBUTION SUB GROUP WORK PROGRAMME 2021	17
Shorter Term Considerations	17
Strategic Considerations	21

Section 1: Introduction and Remit

Introduction

1. This report has been prepared by the Distribution Sub Group (DSG), a working group of the Finance Sub Group of the Partnership Council for Wales. It is an account of the 2021 DSG work programme and the Group's recommendations on changes to the Standard Spending Assessment (SSA) formulae for implementation in the 2022-23 Local Government Settlement and indicative 2023-24 and 2024-25 settlements. For the 2021 work programme, DSG met on four occasions and considered 20 papers.

The Distribution Sub Group

Purpose

2. The purpose of the DSG is to maintain and develop a fair and accurate 'funding formula' for distributing the Local Government Revenue Settlement. The 'funding formula' is a series of around 50 formulae which distribute a notional Standard Spending Assessment (SSA) between the 22 unitary authorities in Wales. A typical formula comprises a series of indicators reflecting the main client group and, where appropriate, adjustments for deprivation and/or population sparsity. Each authority's SSA allocation determines its share of around £4.6 billion of Aggregate External Finance (AEF) after taking account of each authority's ability to raise resources from its own council tax base.
3. The funding formula is kept under a programme of review, of which the underlying principles were established by an independent review of the SSA system, undertaken in 2000 by Swansea University and Pion Economics. The 2021 work programme can be found in Annex D.

Remit for 2021

4. The work programme has been developed with reference to the principles agreed by the Society of Welsh Treasurers. The work programme also recognises that some elements will be for implementation in the 2022-23 Settlement whereas others will be for implementation over a longer timescale.
5. The main objectives of the DSG are:
 - 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.

Distribution Sub Group (DSG) Report – September 2021

- 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.
 - To advise FSG on matters of stability and multi-year indications as appropriate.
 - To prepare an annual report with recommendations for consideration by FSG.
6. In considering the work programme, members have previously expressed concern around the distribution of the Education Improvement Grant and the inconsistency of messaging around the ending of the Minority Ethnic Achievement Grant (MEAG), in particular. Members highlighted the need for all transfers to be brought to DSG to determine distribution and impact on the overall funding received by authorities.

Membership

7. Details of the membership of the DSG during 2021 are at Annex A. Membership included representative officials of the Welsh Local Government Association (WLGA), Welsh Government officials and independent members. Annex B contains the report of the independent members on the work of the DSG in 2021. The Local Government membership is determined by the WLGA.

Section 2: Overview of the 2021 DSG Work Programme

8. This section provides an overview of the progress under the two sections of the 2021 DSG work programme: shorter term considerations and longer term considerations.

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

Distribution Sub Group (DSG) Report – September 2021

- 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.

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.

Section 3: Changes to Existing Formulae and Data Issues

Formula Development Activities

Indicator Based Assessment (IBA) formula reviews

9. The group considered the dates at which each of the individual IBA formulae were last reviewed/updated and the relative financial weighting of each. Members noted the dates of the reviews and updates but thought this did not 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

10. The group considered papers, 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. The group were presented with the financial impact of reverting to the old methodology and an option to phase the financial impact over several years. The group recommended to phase onto the old Pool Rate Methodology over 4 years, citing that this is different from data changes and was a methodological change; not one directly linked to relative need to spend.

Recommendation: To revert to the old pool rate methodology, phased over 4 years.

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 is being picked up with Welsh Government lawyers.

Multi-year settlements

12. The group were presented a paper on the development of multi-year settlements ahead of the Comprehensive Spending Review (CSR) period from 2022-23 to 2024-25. The paper outlined two types of multi-year settlement to consider either providing allocations at a Wales level or at a unitary authority level. After consideration the group concluded that, due to the uncertainty surrounding indicator datasets as a result of the pandemic and changes expected in the forthcoming 2021 Census, any unitary authority level allocations would be liable to significant change. The group then suggested that their preference was that allocations for years 2 and 3 should be shown at a Wales level only, but noted that this would be subject to political decisions.

Distribution Sub Group (DSG) Report – September 2021

Longer term progress

Education and Waste Sub Groups

13. 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.
14. 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.

Data Issues

Treatment of frozen datasets for 2022-23 settlement

15. In general, DSG noted that we are not in a position to take datasets out of long term freezes at present. 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: To consider unfreezing datasets on a case-by-case basis.

Treatment of Pupil Level Annual School Census (PLASC) pupils data

16. The 2021 finalised PLASC data was published in September 2021. The group were asked to consider the financial impact of updating the data and to consider whether or not to update.

Recommendation: To update the PLASC pupil numbers and the children Educated Other Than At School (EOTAS) in the settlement.

Latest expenditure data for the 2022-23 Settlement

17. 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.
18. The group reviewed the impact of updating the underlying budgeted expenditure data in the model using data sourced from 2021-22 Revenue Account (RA) returns. The budgeted expenditure from Covid-19 has not been included in the model to avoid distorting the settlement sectors.

Distribution Sub Group (DSG) Report – September 2021

Recommendation: To use the latest, 2021-22, RA data in the calculation of the settlement build for the 2022-23 settlement, in line with Society of Welsh Treasurers' (SWT) principles.

19. The group are yet to consider an annual standing paper, looking at the impact of updating the underlying actual expenditure data in the model using data sourced from the 2020-21 Revenue Outturn (RO) returns; this is due to the later than usual collection of the data. Changes developed in the form mean that any Covid-19 funding have been removed from regular services lines to minimise any distortion in the settlement allocations and to provide consistency with the time series.

Recommendation: To use the latest, 2020-21, RO data in the calculation of the settlement build for the 2022-23 settlement, provided the data looks reasonable, in line with Society of Welsh Treasurers' (SWT) principles.

Amended (November 2021)

20. In November 2021, the group considered a paper on updating the RO data, after this report had been agreed by finance sub-group. The RO paper outlined that updating the data caused large changes in the IBAs. Most of these changes could be explained by the way in which loss of income from Covid-19 had been reported. As there were inconsistencies in the reporting, the group recommended that the dataset should be frozen for one year, rather than the data manipulated and a temporary fix put in for one year only. The table in annex C has been updated to reflect this change.

The treatment of the population dataset in the formula

21. For the 2022-23 settlement, the group considered a paper identifying the distribution between authorities in the mid-year population data had diverged from the population projection data. For continuity DSG agreed to continue to use the 2018-based population projection data.
22. DSG members suggested that the most comprehensive picture of population is the Census. In order to fully consider population analysis, the group suggested revisiting these datasets once the 2021 Census is published and to use the most up-to-date population projection data until then.

Recommendation: To continue using the most up to date population projections for use in the 2022-23 settlement.

Recommendation: To review the retrospective analysis after the publication of the 2021 Census.

Improving tourism data

23. 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.

Recommendation: 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.

Distribution Sub Group (DSG) Report – September 2021

Datasets impacted by COVID-19 in the 2022-23 settlement

24. Given the potential impact of COVID-19 on data within the settlement DSG were presented a paper on the yearly impact of updating the datasets that could have been impacted by the pandemic (i.e. due to lockdowns, different working patterns, etc.).
25. In the event that certain data is not available, the group agreed to freeze the data at last year's values. DSG agreed for those indicators impacted by COVID-19 that all client-based indicators should be updated as normal and that indicators which are used as proxies for spend should be frozen.
26. The group wanted to ensure, for CTRS expenditure, that the additional funding provided due to COVID-19 was removed from the distribution, as this was grant-funded.

Recommendation: To freeze data that is not available at last year's values – Disabled Facilities Grants, Private Sector Dwelling Stock.

Recommendation: To update the mortality, council tax reduction schemes (CTRS) caseload, ships data as these are client-based indicators.

Recommendation: To freeze those data used as proxies of need to spend – Traffic flow and Tourism data. However, for the Tourism data changes identified in paragraph 22 should be incorporated.

Recommendation: Update the CTRS expenditure data, but after removing the additional COVID-19 funding.

Welfare Reform Update

27. Welsh Government Officials have continued to monitor the rollout of Universal Credit, including the impact on the latest: eligibility for Free School Meals data taken from the April 2021 PLASC.

Change to reporting of Jobseekers' allowance (JSA) data

28. 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.

Recommendation: To use total JSA claimants for future settlements, in the absence of a breakdown between income- and contribution-based data.

The Impact of Universal Credit roll out on Free School Meal eligibility (eFSM)

29. The evidence on eligibility for free school meals presented to the group in 2019 demonstrated that the length an authority has been on universal credit appears to have a direct impact on the distribution of the eFSM data. The relationship between the two indicators for 2021 was less pronounced. The group were given a series of options to consider unfreezing the dataset and including those transitionally protected. The group agreed that as this data had been frozen for several years and is a proxy for deprivation, rather than the need to spend

Distribution Sub Group (DSG) Report – September 2021

indicator, the data should be updated to avoid a large step change in the future. The group agreed that this should be updated to a four year average, to smooth the financial impact.

Recommendation: To use eFSM numbers excluding those transitionally protected, and to unfreeze the dataset using a 4 year average of 2021, 2018, 2017, 2016 data, while exploring other potential indicators of school-age deprivation.

Unemployment benefits dataset update

30. A paper on updating the benefits dataset from the previous year to the next was presented to DSG, in light of big changes in the data due to the COVID-19 pandemic. The group consented that the data should be updated to reflect the ongoing changes in the distribution.

31. Members noted that they might expect the distribution revert to the previous baseline in future years, as the impact of the pandemic is unwound, so treasurers should be aware that any change could be temporary.

Recommendation: To use the latest unemployment benefits data, in the calculation of the 2022-23 settlement.

Section 4: Specific Grants

Coastal Risk Management Programme (CRMP)

32. 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

33. 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 local authority level. A subsequent meeting between the Welsh Government, the WLGA and Local Partnerships clarified the situation and the DSG agreed to distribute on the set profile when the funding is transferred into the 2022-23 settlement.

Recommendation: The distribution of Gate fees to follow the set profile of the lead authority, similar to the PFI structure.

Distribution Sub Group (DSG) Report – September 2021

Annex A: Membership of the DSG 2021

Welsh Government – Local Government Finance Policy / Strategic Finance Division

Judith Cole	Deputy Director, Local Government Finance and Workforce Partnerships Division (Chair)
Debra Carter	Deputy Director, Local Government Finance Reform
Emma Smith	Local Government Finance and Workforce Partnerships
Simon Edwards	Local Government Finance and Workforce Partnerships
Ashley Caddick	Local Government Finance and Workforce Partnerships
Heather Haywood	Local Government Finance and Workforce Partnerships (up to March 2021)
Clare Blake	Local Government Finance Reform

Independent Members

Chris Barton
Dr Dennis de Widt
Guto Ifan

Welsh Local Government Association representatives

Jon Rae	Director of Resources, Welsh Local Government Association
Dilwyn Williams	Chief Executive, Gwynedd County Council (until March 2021)
Andrew Stephens	Head of the Local Government Data Unit Wales (until March 2021)
Hywel Jenkins	Director of Finance & Corporate Services Neath Port Talbot County Borough Council (until September 2021)
Ian Allwood	Head of Finance, Cardiff Council
Carys Lord	Head of Finance / Section 151 Officer, Vale of Glamorgan Council
Jane Thomas	Head of Finance (Section 151), Powys County Council
Barrie Davies	Director of Finance and Digital Services, Rhondda Cynon Taf County Borough Council
Steve Gadd	Head of Finance, Denbighshire County Council
Jonathan Davies	Assistant Head of Finance, Monmouthshire County Council
Dafydd Edwards	Head of Finance, Gwynedd County Council (from May 2021)
Sam Sullivan	Head of Statistics Local Government Data Unit Wales (from May 2021)

Annex B: Report of the independent Members 2021

Objectivity and Fairness

As the independent members of the Distribution Sub-Group (DSG) we would confirm that in our opinion the work of the group has been carried out objectively.

In forming our opinion, we have had access to all the papers and meetings of the Distribution Sub Group which we consider necessary to form our judgement. In these papers, meetings and the observed manner in which the group carried out its work, there was no evidence of bias designed to favour any particular interest or group of interests.

We therefore conclude that, in arriving at the recommendations in this report, the members of DSG properly represented the interests of all Welsh local authorities and showed no bias either in favour of, or against, the interests of any particular local authority or group of local authorities.

The Work of DSG

Changes to the formula in 2021 have again concentrated on the updating of key data sets and amending parts of the formula where data is no longer able to support the existing distribution formulae.

Previous reports of the Independent members of DSG, and indeed reports to the DSG itself, have referenced the need for a holistic review of the formula mechanism and whilst the members are pleased to note some progress has been made to plan for related activity in this regard, it would appear to still remain a longer term aspiration.

Future Developments

We referenced in last year's report, an increasing trend for authorities to question the construct of the formula and its relevance with an ever changing assessment of spending needs. Given the current economic situation resulting from the Covid19 pandemic, the difficulty of securing some data sets and the changing nature of the underlying data, questions over the construct and longevity of the current model have gained increased prominence over the past year.

Despite this, it remains relevant for the Group to continue to work to update and future proof the formula where possible to reassure local government and the wider community that the basis of the formula remains valid, appropriate and fair.

There is a continued debate between local and national partners about how to take the settlement formula forward to ensure clarity, transparency and understanding. We reiterate our call made in last year's report for a more fundamental review of the formula when this can be accommodated.

For the sake of completeness, the imperatives for a review of the formula remain unaltered and are reiterated below.

Distribution Sub Group (DSG) Report – September 2021

- The need to amend aspects of the formula and to bring historical data up to date suggests that the current formula still needs significant work. The transparency of any changes to the distribution as a result of such amendments also remains an issue.
- Reliance on historical data and spending patterns in a volatile period with significant change is having significant implications for the appropriateness of the existing distribution mechanism.
- The current formula mechanism is based on a methodology that does not meet established standards of statistical practice. Regression analysis of only twenty-two cases (i.e. the Welsh local authorities) is susceptible to over-fitting of the data and to influential cases skewing the estimates. Multi-level modelling can address some of the challenges in robustly identifying predictors of the need to spend. Nevertheless, the distribution of grant funding remains highly sensitive to changes in data aggregated to the local authority level.
- Finally, given the increasing reliance on collaboration for the delivery of many key services across Wales, and divergence in the delivery models that have been adopted in some individual councils, there is a need to consider in what ways alternative approaches to the production of services might need to be incorporated within the formula.

It is not in the remit of the independent members to comment on the approach taken to the provision of local government services in the future however, there are a number of factors which will need to be taken into account regardless of any future delivery model chosen. These include:

- How any change to the overall system of local government finance in Wales might be accommodated
- Whether changes to devolved funding and national taxation may influence the mechanism
- How the underlying methodology for the mechanism could be adapted were structural changes to occur
- How changes would be dealt with in the existing or any replacement mechanism
- How changes to any non-unitary authority funding regimes may be dealt with in the context of transfers in or out of the settlement
- Whether and how differential levels of local taxation may be accommodated by the existing mechanism should it prove necessary
- How any replacement mechanism would or would not take account of the different levels of local taxation currently levied in parts of Wales
- How transparency of any new formula can be enhanced

Distribution Sub Group (DSG) Report – September 2021

- How the formula meets established principles of statistical best practice if this is a necessity

Finally, we would particularly wish to record our recognition of the professional manner in which the officials of the Welsh Government and the officers of the Welsh Local Government Association continue to deal with this complex task.

**Chris Barton CPFA
Dr Dennis de Widt
Guto Ifan
October 2021**

Distribution Sub Group (DSG) Report – September 2021

Annex C: Modelled impact of changes on the 2021-22 Total SSA* (not final allocation)

Local Authority	2021-22 SSA	Key Dataset Changes				Formula Changes		2021-22 SSA	Differences	
	Published	a) latest RA data**	b) latest pupil numbers	c) latest population data	d) updating the eFSM data	e) Change to the WILG distribution	f) Change to the debt financing distribution	With changes	£000s	%
Isle of Anglesey	148,168	-4	12	-105	-149	-54	-36	147,832	-336	-0.2%
Gwynedd	264,635	60	-110	-73	-255	-267	-85	263,905	-730	-0.3%
Conwy	239,225	128	-139	-70	7	-80	-25	239,046	-179	-0.1%
Denbighshire	215,752	-85	490	-11	-33	12	-32	216,092	341	0.2%
Flintshire	298,689	-148	-801	143	385	-84	21	298,206	-484	-0.2%
Wrexham	265,413	-3	-244	-286	172	-198	75	264,929	-484	-0.2%
Powys	280,032	18	-344	-199	167	-43	-195	279,435	-596	-0.2%
Ceredigion	154,802	18	-527	-231	-2	10	-130	153,941	-861	-0.6%
Pembrokeshire	258,849	18	-50	-133	-381	-88	-34	258,181	-668	-0.3%
Carmarthenshire	391,960	-80	-307	-3	67	-404	-30	391,203	-757	-0.2%
Swansea	484,441	282	-729	11	-344	243	5	483,909	-532	-0.1%
Neath Port Talbot	306,372	3	-51	26	-256	11	-3	306,102	-270	-0.1%
Bridgend	290,404	-61	-41	353	-81	13	52	290,639	234	0.1%
The Vale of Glamorgan	257,077	-175	380	261	60	99	104	257,806	729	0.3%
Rhondda Cynon Taf	515,847	-139	196	-18	-144	-91	-37	515,614	-233	0.0%
Merthyr Tydfil	128,438	11	187	28	-84	-4	-6	128,570	133	0.1%
Caerphilly	379,883	-142	-1,096	-130	-525	151	102	378,242	-1,641	-0.4%
Blaenau Gwent	151,083	85	-112	-111	-55	60	-108	150,841	-242	-0.2%
Torfaen	195,067	-42	-527	-35	512	-19	-23	194,932	-135	-0.1%
Monmouthshire	167,709	37	7	94	161	95	0	168,103	394	0.2%
Newport	327,071	-77	1,043	649	97	118	96	328,997	1,926	0.6%
Cardiff	697,816	296	2,763	-160	681	520	288	702,205	4,389	0.6%
WALES	6,418,731	0	0	0	0	0	0	6,418,731	0	0.0%

Please note: Figures do not indicate actual funding allocations for 2022-23 and only exemplify some of the updates for the 2022-23 settlement. Other updates, such as underlying council tax modelling assumptions will have a significant impact on allocations.

Datasets that are frozen for 2022-23 plus the PLASC and population changes above account for the distribution of over 80% of SSA

- a) Distributional changes resulting from an update to the underlying RA data only
- b) Distributional changes resulting from the 2021 PLASC pupil data only (not eFSM)

Distribution Sub Group (DSG) Report – September 2021

c) Distributional changes resulting from an update to population data to 2018-based 2022 projections (including minor adjustments to age cohorts as outlined in section 3.1)

d) Distributional changes resulting from the phased approach to the WILG funding formula change (see paragraph 24 of the 2019 DSG Report)

*The changes to the distribution are not mutually exclusive but have been presented as such in this table. Actual allocations will account for these dependencies.

**Data revised in November 2021

Distribution Sub Group (DSG) Report – September 2021

Distribution Sub Group Work Programme 2021

The work programme for 2021 is in two parts covering the short-term and longer term considerations in relation to the development of the formula. The first section considers those items that have been identified as needing to be considered in order to ensure future settlements (2022-23 and 2022-23 settlements) take account of issues affecting it. 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

Item	Description	Resource	Timing / action
General Items			
Post-16 Learning Difficulties and/or Disabilities Specialist Placements	<p>Consideration is being given to changing the arrangements for Post-16 Learning Difficulties and/or Disabilities Specialist Placements. These considerations follow on from the proposals for a new statutory framework for supporting children and young people with additional learning needs (ALN) contained in the Additional Learning Needs and Education Tribunal Bill which was introduced into the National Assembly for Wales on 12 December 2016.</p> <p>DSG will continue to consider the distributional implications of the proposal to transfer responsibility to local authorities for managing these specialist placements, and how this is best placed in practice.</p>	LGFWP	2022-23 at the earliest.
Welfare Reform	As benefit-related data are key components of the settlement, there is a continued need for DSG to monitor the emerging impact of welfare reform on the data used in the formula.	LGFWP	DSG to consider ongoing

Distribution Sub Group (DSG) Report – September 2021

Item	Description	Resource	Timing / action
	<p>As a short term and long term considerations need to assess the current indicators (frozen and unfrozen) to ensure these still reflect a fair and balanced distributional mechanism, given the implications of the changes to the UK Government welfare support.</p>		
<p>Assumed interest rate for the debt financing element of the formula (Pool Rate)</p>	<p>DSG receives an annual update on the calculation of the notional interest rate assumption used in the settlement model to calculate the element of the settlement that relates to debt financing costs. There is a need to review the assumptions that underpin this component, in particular the approach to reversing out the self-financed borrowing element from the model to ensure the assumptions underpinning the calculation of the interest rate continues to be consistent with the overall borrowing position. Also, data from the PWLB on local authority debt profiles is not available in the previously reported format.</p> <p>The working group will continue to review the process with a view of simplifying the model in 2021.</p>	<p>LGFWP / Pool Rate working group</p>	<p>2021</p>
<p>Population indicator for future settlements</p>	<p>To monitor the population projections data compared to the latest mid-year estimates to ensure it has not diverged. To review the population data and the retrospective analysis after the publication of the 2021 Census.</p>	<p>LFGWP</p>	<p>2021 onwards</p>
<p>Free School Meal data</p>	<p>The free school meals data has been frozen, since the 2019-20 Settlement at the three year average up to 2018 PLASC data, as the group have expressed concerns over the gradual roll out of Universal Credit was having on the data set.</p> <p>The education sub-group will look for other data sources to replace this indicator.</p>	<p>LGFWP</p>	<p>2021</p>

Distribution Sub Group (DSG) Report – September 2021

Item	Description	Resource	Timing / action
Children in out of work families indicator	DSG agreed to continue to freeze the children in out of work families' data for the 2021-22 settlement. Exploration into alternative datasets to continue.	LGFWP	2021
Homelessness	The homeless data has been frozen, since the 2016-17 Settlement. DSG noted that, in the long term, options need to be considered for future settlements. The group have reviewed the homelessness data, post changes to housing legislation and integration of homelessness prevention funding in the settlement, and will look to agree a preferred updated indicator this year. Given the additional funding transferred in for homelessness in previous years, it would be good practice to recalibrate the weightings of the non HRA indicator.	LGFWP	2021
Housing Benefit dataset	The decision was made previously by DSG to freeze this data set, due to the impact of the roll out of Universal credit, we will continue to assess potential replacements for this indicator.	LGFWP	2021
The impact of covid-19 on data	To assess and agree the treatment of datasets affected by covid-19, such as: Tourism, , Benefits, CTRS, Population etc.	LGFWP	2021
Financial datasets	The Revenue Account and Revenue Outturn datasets that would usually be used in the 2022-23 settlement will be affected by the Covid-19 pandemic. The assessment of the treatment of these datasets will be considered throughout the year.	LGFWP / Policy teams / DSG	2021
Corporate Joint Committees (CJs)	Consider the interaction between Corporate Joint Committees and the local government Settlement funding formula.	LGFWP	2021

Distribution Sub Group (DSG) Report – September 2021

Item	Description	Resource	Timing / action
Specific Grants			
Potential transfers into and/or out of the settlement	To consider other potential transfers into the settlement at the appropriate juncture.	LGFWP / Policy teams	Monitor situation with policy.
Advice on the distribution of specific grant funding on an ad hoc basis	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.	LGFWP / Policy teams	Monitor situation with policy.
Annual standing papers			
PLASC data updates	An annual standing paper looking at the implications of updating the PLASC data in the settlement formula on the distribution to authorities.	LGFWP	July / September 2021
RO/RA data updates	An annual standing paper looking at the implications of updating the RO and RA data in the settlement formula on the distribution to authorities.	LGFWP	July / September 2021
DSG Progress Report	A report of the progress of the DSG against the 2021 work programme up to July 2021, for presentation at the Finance Sub Group (FSG) meeting in July.	LGFWP	May 2021 (or late June via correspondence)
DSG Report	The final report of the DSG to be signed off by the Finance Sub Group (FSG) in September 2021.	LGFWP	September 2021

Distribution Sub Group (DSG) Report – September 2021

Strategic Considerations

Item	Description	Resource	Timing / action
Formula development	<p>Two technical sub groups of DSG were created to consider the potential for developing an alternative approach to the education and waste elements of the formula. This considers an alternative method of distribution, such as based on building it up using unit cost measures for the main components spending.</p> <p>During the course of the pandemic, this work was paused. Going forward, 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.</p>	LGFWP / Local Government DSG members	Sub group to consider
Wider policy considerations	To respond to any wider policy and reform commitments. The DSG needs to engage with these elements of work at the appropriate time.	TBC	TBC
Census data	DSG to keep abreast of the development of the 2021 census and how this data could be used within future settlements.	LGFWP	Monitor situation with KAS.
Re-calibrate distribution weightings	<p>The weightings within each IBA, that are used to distribute funding, have not been re-calibrated for several years. As additional funding has been put in for specific new responsibilities through the years, the weightings are likely to have changed.</p> <p>Officials to consider the impact of recalibrating the weightings within each IBA, to ensure they still reflect the best measure of the need to spend.</p>	LGFWP	2021