

Distribution Sub-Group (2019) Paper 10 – DSG Progress Report

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.

DSG Progress Report

Summary

1. Annex A contains a draft DSG progress report for presentation to the Finance Sub Group on 3 July.

Views sought

2. Members are asked to consider the content of the report and provide comments.
3. Welsh Government Officials will update this paper with the comments from DSG to re-circulate to members for final agreement, ahead of the Finance Sub Group meeting on 3 July.

**Local Government Finance Policy
Welsh Government**

DSG Progress Report – July 2019

1 Introduction

This paper sets out the key aspects of the remit of the Distribution Sub Group for 2019 and the progress in delivering this work.

2 Action required

Finance Sub Group is asked to note the work undertaken by DSG and the progress to date.

3 Background

The annual revenue settlement for local government in Wales is distributed using a relative needs-based formula. DSG's remit is to ensure the formula is maintained and developed to remain up to date, relevant, and reflective of relative need to spend.

The statutory framework for the annual settlements is governed by the Local Government Finance Act 1988. There are well-established principles which underpin the considerations of DSG, namely:

- Equity
- Stability
- Clarity
- Relevance

The principle of a relative needs-based formula encompasses the selection of objective indicators of need which are prepared on a consistent basis and to consistent standards across Wales and which are resilient to the policy choices made by different authorities.

4 Remit for 2019

The main objectives of the DSG for 2019 are as follows.

- To propose to Finance Sub Group (FSG) an annual programme of work to develop the formula for compiling and distributing Standard Spending Assessments (SSA).
- To implement the annual DSG Work Programme, as agreed by FSG.
- To ensure all data used in the settlement are objective, robust, current and validated and are drawn from reliable, stable and representative data sources.
- To ensure data collected centrally are reviewed as part of a longer term work programme and, where appropriate, to arrange for additional data to be collected.
- To consider distributional matters arising from significant transfers, new responsibilities and all significant changes affecting the distribution of SSA.
- To consider the distributional aspects of specific grant schemes, as appropriate, on a timely basis and in line with the Welsh Government guidance on grants.
- To advise FSG on matters of stability and multi-year indications as appropriate.
- To prepare an annual report with recommendations for consideration by FSG.

5 Scope and requirements

In January 2019, the Finance Sub Group agreed the work programme of the DSG, which is in two parts, covering the short-term and longer term considerations in relation to the development of the formula.

The first section considers those items that have been identified as needing to be considered to ensure the timely delivery of next year's settlement in line with the principles and objectives of the formula. The second section considers those aspects of the current formula which it is recommended be reviewed over a longer timescale to ensure the formula is continually improving and remains relevant and fit for purpose.

Shorter term considerations

- To consider the distributional implications of the proposal to transfer responsibility to local authorities for managing post-16 learning difficulties and/or disabilities specialist placements.
- To review the assumptions which underpin the assumed interest rate for the debt financing element of the formula (Pool Rate). 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.
- To investigate the consistent treatment of council tax discounts when calculating the 100% tax base for RSG calculation purposes.
- To consider the potential for greater stability of the free school meals indicator data and to monitor the emerging impact of welfare reform on the indicator data used in the formula, such as eligibility to claim free school meals, which is used as a proxy of school-age deprivation in the settlement formula.
- To assess the homelessness data used within the settlement model.
- To investigate the treatment of new responsibilities in the floor calculation.
- To assess the suitability of the Children in out of Work Families indicator within the settlement model.
- To consider, in more detail, the Revenue Outturn and Revenue Account data within the SSA Build of the Settlement.
- To examine the financial impact of updating the local authority population projections to the latest set of Welsh Government population projections
- To examine the distributional implications of potential transfers into and out of the settlement.

- 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 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.

6 Progress

DSG has met once since the January meeting of FSG. The following gives a summary of the actions and proposals arising from these meetings.

Shorter term progress

Treatment of new responsibilities in the settlement and the floor

DSG members discussed the impact of passporting new responsibilities through the funding floor and the funding consequences if this would be implemented. The group raised concerns that this would cause more issues with distribution and the transparency of the formula. DSG members agreed not to change the way the funding floor is calculated in the settlement, but agreed it was worth the investigation.

Consistent treatment of council tax discounts in the settlement formula

The group discussed the treatment of Council Tax discounts in the Settlement formula. The current process means that those Councils who have exercised their discretion to reduce or remove the discount on long term empty or second homes have an increased tax base for RSG purposes compared to authorities that have not exercised this discretion. This means that authorities that have exercised their discretion are (either partially, or fully, depending on their level of council tax) being penalised through the settlement, compared to those not exercising their discretion. DSG have agreed to ensure a consistent treatment of these discounts for the 2020-21 settlement, to ensure no authority loses funding by choosing to take up their discretion to remove or reduce the discounts on long term empty and second home properties. The current technical proposal, provisionally agreed by DSG, is to treat all empty properties and second homes as receiving no discounts regardless of the local policy decision. Welsh Government officials are discussing with lawyers to make sure there are no legal basis for why this cannot be completed.

Revenue Outturn data

DSG members are considering the impact of changing the treatment of school reserves in the RO data used in the mapping of the education IBA service areas.

Pool Rate working group

Welsh Government officials and local authority officers have continued to work to review the Pool Rate model. Welsh Government Officials have discussed the current analysis which the working group have undertaken, and are currently considering the implications of this and how this could be taken forward. Further investigatory work will be undertaken over the remainder of the year.

Post-16 learning difficulties and/or disabilities specialist placements

DSG have raised that the ALN act as a whole requires further understanding, at a political and an official level, of the requirements expected of authorities prior to discussing the funding levels available. Due to the complex nature of this funding it is important that the distribution is agreed as early as possible to allow authorities enough time to prepare. In light of this, the DSG have considered the distributional issues associated with the proposal to transfer responsibility to local authorities for managing post-16 LDD specialist placements and further analyses of current costs of the service. Further papers will be considered ahead of the transfer of funding to local authorities in 2021-22 at the earliest.

Coastal Risk Management Programme (CRMP) grant

The group considered an oral item on the potential transfer into the settlement of funding. The funding is paid as a specific grant in 2019-20 before potentially moving to RSG in 2020-21. Further papers will be prepared ahead of the potential transfer of funding in 2020-21.

Longer term progress

Education Formula Modelling Considerations

The education sub-group have investigated each authority's own school funding formula, to assess for any commonality between the drivers of need to spend across authorities. The group are now working with ADEW Finance representatives to progress this work further, to provide insights to why each authority does/does not consider a particular component to be a determinant of the need to spend. Further work will be required by the group before developing a working hypothesis.

Waste Formula Modelling Considerations

The Waste Working Group have discussed a variety of issues they feel need to be taken into consideration in constructing any new formula for Waste Services. They have met with Waste and Resources Action Programme (WRAP) Cymru to discuss the underlying assumptions used in their modelling, including route optimisation, and are setting up further meetings to explore this in further detail, to inform any potential new formula.