

***Distribution Sub-Group (2021) Paper 16 – Multi-year settlements –
considerations for 2022-23 to 2024-25***

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.

Multi-year settlements – considerations for 2022-23 to 2024-25

Summary

1. This paper considers, at a high-level, the principles associated with the development of multi-year settlement arrangements for local government ahead of the next Comprehensive Spending Review (CSR) period from 2022-23 to 2024-25.

Views sought

2. Members are asked to discuss the principles set out in the paper and to give their views on the considerations for multi-year settlements.

Previous papers

Distribution Sub-Group (2010) Paper 23 – Multi-Year Settlements for Local Government – Proposed arrangements for 2011-12 to 2013-14

Background

3. The key objective of implementing multi-year settlements is to provide local authorities with the appropriate tools to support better medium term financial planning both for the Welsh Government and local government.
4. The Welsh Government published its first multi-year settlement for the 2008-09 settlement, including a final allocation for 2008-09 and indicative allocations for each local authority for years 2 and 3 (2009-10 and 2010-11). The following year, for the actual 2009-10 settlement, the indicator data was updated, but the underlying financial data and formula remained fixed. In 2010-11, all data was updated and the formula underwent some limited revision.
5. The most recent indicative settlement was for 2015-16, which was published alongside the 2014-15 settlement and provided a breakdown across all authorities. However, when the 2015-16 settlement was actually published, the following year, the full range of data was updated.

Context

6. The UK Government recently announced that the 2021 CSR would cover a 3-year period – 2022-23 to 2024-25. The Minister for Finance and Local Government has indicated her intention to provide as much certainty to local government for future year settlements as the budget allows. In preparation for the potential of a multi-year settlement round, this paper considers the high-level principles of multi-year settlements.

Distribution Sub-Group (2021) Paper 16 – Multi-year settlements – considerations for 2022-23 to 2024-25

Granularity

7. We consider there to be two main approaches to multi-year settlements: (a) either years 2 and 3 show only a Wales level total or (b) they show a distribution across authorities. Whilst this is ultimately a political decision, the group are welcome to provide comments on which may be a preferred approach, given their understanding of the underlying data.

Future updates

8. Under approach (a), the distribution of the settlement in years 2 and 3 would be calculated in each of those years. Under approach (b), there is either the option to fix the distributions for years 2 and 3 at the outset, or to update either part or all of the formula and/or data in each of the subsequent years.
9. There are five key areas of relevance to be considered when assessing whether or not to update indicative multi-year settlement allocations in subsequent years:
 - Indicator data;
 - Underlying financial data (RA/RO);
 - Council Tax assumptions;
 - Formula;
 - Transfers.
10. Again, whilst this is ultimately a political decision, this is much more of a methodological consideration and one that the DSG is encouraged to comment on. If required, a further paper can be provided, going into more detail on the areas outlined above. Members are also asked to consider the Society of Welsh Treasurers' principles, which state that the settlement should use the most up-to-date published indicator data

Calculation of indicative allocations

11. Under approach (b) above, consideration would need to be given as to whether, in the first year of the multi-year settlement round, any forward projection of data is used in the calculation of the indicative year allocations. For example, it would make sense to update the data year of the population projections (as these are readily available), but would there be any merit in trying to project council tax rises, or pupil numbers? This question becomes all the more important if a decision was made to freeze the indicative allocations and not re-calculate in those settlement years.
12. As there are a large number of different options with regards to the forward projection/treatment of data and formulae, this can also be the subject of a further paper, if DSG would like to consider this in more detail.

Conclusion

13. Depending on political decisions and the DSG's appetite to see more work done on forward projections, there could be a significant amount of work to be done, in order

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to arrive at the desired methodology for a multi-year settlement. This is something the group may wish to consider. Officials and Ministers will also have to consider timings of announcements, with the potential for a delay in the publication of any indicative local authority allocation splits for years 2 and 3.

14. There are a wide range of options when designing the methodology for multi-year settlements, and members are asked to consider the complexity of this and how their decisions may be impacted by wider political decisions.
15. Members are asked to comment on the high-level considerations for multi-year settlements.

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