

Chapter 4

3-Year Settlements

Background

62. The Chancellor announced that we would be introducing three-year settlements for local authorities in his announcement of the 2004 Spending Review. The first three-year settlement will be for two-years only starting in 2006/07. A consultation paper on this subject was issued by the Office on 15 December 2004 and an analysis of responses was published on 30 June 2005, and the Government's proposals were issued on 19 July 2005.

63. There are four main issues on which we consulted. These were:

- Does the introduction of three year settlements mean we must or should change the fundamentals of the way the grant system operates?
- Over the three year cycle, which years should be fixed in advance and which subject to reopening i.e. when should any changes to update or revise formulae and data take place?
- Whether to use projected or frozen i.e. historic data in the formulae for years 2 and 3, or a mixture of both; and
- Whether to continue with the practice of retrospectively amending past years' settlements if errors in data etc come to light.

New grant system

64. This has already been discussed in the previous chapter.

When in the cycle to introduce changes in the grant formulae, data and funding totals

65. We intend to align all aspects of three-year settlements with the existing Spending Review round, with firm three-year allocations being announced for the first full Spending Review cycle after three-year settlements are introduced. As in the Spending Review round, the third year of the cycle will become the first year of the next round. But the settlement for this year will not be reopened, simply recalculated to give a more accurate starting point for the calculation of following settlements.

66. Also if new funding is introduced, for example, to allow for new responsibilities for local government, it should be distributed as specific grant until it can be incorporated into the settlement cycle.

Use of data

67. We intend to use projections for the dominant data drivers of population and council tax base. This would make the settlement more forward looking, which would both fit in with the three year concept and meet a significant recommendation of the Barker review. For other data items, most of which are either impossible (e.g. numbers of benefit claimants) or very difficult (e.g. relative labour costs) to forecast, we intend to use frozen figures based on multi-year averages.

68. However, we know that the effects of revaluation of non-commercial properties will affect the 2007/08 settlement. For this reason, 2007/08 will only be a provisional settlement when announced at the time of the 2006/07 settlement. We therefore propose to use actual taxbase data collected on CTBL1 forms for both the 2006/07 and 2007/08 settlements. We propose to use taxbase projections from 2008/09 onwards, and for the provisional 2007/08 settlement published at the time of the 2006/07 settlement.

Retrospective amendments

69. Under three year settlements, we intend to adopt the general rule that no retrospective amendments will be made to the formula grant settlements. Otherwise, the whole point of three year settlements in providing greater stability and predictability would be undermined. However, we cannot completely exclude the possibility of a major systematic error in the settlement being discovered, and, if this happened, we would consider amendment.