

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.

Pool Rate for 2025-26 Settlement

Summary

1. This paper follows on from the DSG decision to revert back to the previous (unadjusted) pool rate methodology and assesses the continued financial impact of phasing the pool rate back to this methodology in 25% increments.

Views sought

2. Members are asked for their view on continuing the phasing back to the unadjusted methodology in 25% increments. For the 2025-2026 Settlement, this will mean using 100% of the Unadjusted Pool Rate method and 0% of the Adjusted Pool Rate method.

Previous papers

Distribution Sub-Group (2023) Paper 17 – Pool Rate for the 2024-25 settlement

Distribution Sub-Group (2022) Paper 10 – Pool Rate for the 2023-24 settlement

Distribution Sub-Group (2021) Paper 15 – Pool Rate for 2022-23 onwards

Distribution Sub-Group (2021) Paper 09 – Pool Rate for 2022-23 onwards

Background

3. The pool rate is used to determine the debt financing element of the revenue settlement. The debt financing model calculates the estimated average outstanding debt for the settlement year and applies the pool rate to estimate the interest charged on this debt.
4. There are two different pool rates: adjusted and unadjusted. The adjusted model was used up to 2021-22 but was providing a high rate which was not representative of real-life interest rates, therefore it was agreed through DSG to revert to the historic unadjusted method. Due to the financial impact of making this change, DSG agreed to phase it over 4 years (to 2025-26) – with 2022-23 being year one – to dampen changes to allocations.
5. For the 2022-23 Settlement DSG agreed to revert the pool rate back to the unadjusted method ([Distribution Sub-Group \(2021\) Paper 15 – Pool Rate for 2022-23 onwards](#)). Due to the financial impact of making this change, DSG agreed to phase it over 4 years (to 2025-26) – with 2022-23 being year one – to dampen changes to allocations.
6. This paper looks at the continued impact of phased approach to reverting back to the Unadjusted Pool Rate method.

Analysis

7. Exemplification analysis (Table 1) has been undertaken to show the impact of the final year of phasing, using the 2024-25 Settlement as a baseline. For completeness, the

Distribution Sub-Group (2024) Paper 15 – Pool Rate for the 2025-26 Settlement

analysis also shows the impact of a 100% return to the unadjusted methodology in the fourth year.

8. The fourth year (Y4) analysis uses 0% of the Adjusted Pool rate method and 100% of the Unadjusted Pool Rate method. The phased approach continues to dampen the impact on financial allocations.

Table 1: Exemplification of final year of phasing of the pool rate to the Unadjusted methodology in 25% increments.

	£000s			
	2024-25 AEF	Y4	%	
			Y4-actual	Y4-actual
Isle of Anglesey	127,586	127,539	-47	0.0%
Gwynedd	233,317	233,194	-123	-0.1%
Conwy	203,526	203,484	-42	0.0%
Denbighshire	200,795	200,765	-30	0.0%
Flintshire	258,527	258,545	18	0.0%
Wrexham	232,865	232,953	88	0.0%
Powys	235,865	235,634	-231	-0.1%
Ceredigion	135,286	135,123	-163	-0.1%
Pembrokeshire	218,870	218,824	-46	0.0%
Carmarthenshire	350,646	350,611	-35	0.0%
Swansea	435,021	435,039	18	0.0%
Neath Port Talbot	285,594	285,579	-15	0.0%
Bridgend	258,925	258,982	58	0.0%
The Vale Of Glamorgan	209,781	209,912	131	0.1%
Rhondda Cynon Taf	485,567	485,507	-60	0.0%
Merthyr Tydfil	123,492	123,488	-4	0.0%
Caerphilly	348,864	348,957	93	0.0%
Blaenau Gwent	144,044	143,918	-126	-0.1%
Torfaen	178,733	178,706	-27	0.0%
Monmouthshire	126,019	126,018	-1	0.0%
Newport	304,045	304,196	151	0.0%
Cardiff	623,158	623,552	395	0.1%
Wales	5,720,524	5,720,524		

Conclusion

9. Members' views are sought on the final phasing approach to slowly revert the pool rate back to the unadjusted method.