

## COUNCIL

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| <b>Date of Meeting</b> | 14 <sup>th</sup> June 2016                                  |
| <b>Report Subject</b>  | Independent Commission on Local Government Finance in Wales |
| <b>Cabinet Member</b>  | Leader of the Council and Cabinet Member for Finance        |
| <b>Report Author</b>   | Chief Executive   |
| <b>Type of Report</b>  | Strategic   |

### EXECUTIVE SUMMARY

In 2016 the Welsh Local Government Association (WLGA) appointed an independent commission to examine the sustainability of the local government finance system in Wales and to recommend improvements for the future.

The Commission has concluded its work and made recommendations. The Executive Summary of the Commission's report is appended.

The Commission called for evidence as part of its work. Flintshire made a written submission following a debate held by full Council held on 20<sup>th</sup> October 2015.

The Commission follows a similar Independent Commission on Local Government Finance for England which published its findings and recommendations early in 2015.

The Council in adopting its Medium Term Financial Strategy set out a number of proposals where national reform and relief is needed.

Cabinet has received this report and referred it to full Council for a submission to be made to Welsh Government in support of the recommendations of the Commission. A presentation will be made at the meeting with an outline of a response to encourage debate and collective agreement.

### RECOMMENDATIONS

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| 1 | At the invitation of Cabinet to welcome the report and recommendations of the Independent Commission. |
| 2 | To agree a response to the Welsh Government and the Welsh Local                                       |

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|  | Government Association in support of the recommendations of the Commission. |
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## **REPORT DETAILS**

| <b>1.00</b> | <b>THE PURPOSE AND FINDINGS OF THE COMMISSION</b>  |
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| 1.01        | <p>In 2015 the Welsh Local Government Association (WLGA) appointed an Independent Commission on Local Government Finance in Wales. The terms of reference of the Commission were to explore:-</p> <ul style="list-style-type: none"> <li>• the strengths and weaknesses of the current local government finance system in Wales;</li> <li>• options for changing the system of financing local government in Wales, including both revenue and capital expenditure, with a view to increased self-sufficiency;</li> <li>• reforms to encourage greater economic growth in Wales; and</li> <li>• reforms which secure the delivery of better public services and outcomes envisaged in the Welsh Government’s White Paper.</li> </ul> |
| 1.02        | <p>The membership of the Commission is:-</p> <p>Professor Tony Travers (Chair) - <i>Director of the London School of Economics;</i><br/> Chris Hurst - <i>Qualified Accountant;</i><br/> Professor George Boyne – <i>Pro Vice-Chancellor, College of Arts, Humanities and Social Sciences and Professor of Public Sector Management, Cardiff University;</i><br/> Gill Lewis – <i>Qualified chartered accountant (CIPFA);</i><br/> Harry Thomas – <i>former Chief Executive of Gwynedd County Council;</i><br/> Lynn Pamment – <i>PWC partner for Public Sector clients in the West and Wales;</i> and<br/> Simon Parker – <i>Director, New Local Government Network.</i></p>  |
| 1.03        | <p>The Commission has published its report and recommendations. The Executive summary is attached (Appendix A) and a hyperlink is provided to access the full report.</p>  |
| 1.04        | <p>The earlier Independent Commission on Local Government Finance in England published its findings and recommendations in 2015. There are strong similarities in evidence and outcome between the two reports.</p>  |
| 1.05        | <p>The following is a list of recommendations made by the Commission.</p> <p><i>“Full localisation of business rates, with 100% of business rates and business rate growth being retained by local government. In the year of implementation measures would need to be put in place – such as adjustments to grants receipts or pooling arrangements - to ensure that no authority is better or worse off financially than in the previous financial</i></p>   |

year.

*The Commission commends the fact that Wales is the only nation in the UK to have undergone a council tax revaluation exercise, and recommends that since even in Wales, properties are taxed based on a 2005 valuation base, a further revaluation needs to be undertaken, with commitment to this being done on a five yearly basis in the future.*

*The Commission recommends that the Welsh Government introduce legislation to make it possible for city regions, or other sub-national groupings of authorities, to reform bandings and the ratio of council tax payable from band to band.*

*The Commission recommends that the incoming government should devolve to local authorities the setting of council tax discount and the power to determine who receives council tax support.*

*The Commission recommends authorities be given a suite of permissive powers that can be introduced locally, depending on local circumstances. Examples of powers to be conferred would be the introduction of a tourism tax. There should be a logic in choosing to levy these taxes, with money raised to be utilised according to related priorities, so tourism tax to assist with local development/ regeneration which would aid the tourism industry.*

*From April 2017, the Welsh Government will also assume responsibility for the replacements for Stamp Duty Land Tax and Landfill Tax with the proposal for partial Income Tax devolution by 2020. As the Welsh Government achieves greater fiscal devolution from the UK Government the Commission recommends that this should flow through to further devolution to the local level.*

*The Commission recommends a substantial reduction in the number, scope and scale of specific grants. It is the Commission's belief that specific grants force councils to use resources on services that may not be a local priority and are a challenge to local autonomy, service users and good government, whilst adding additional administrative burdens with each grant. The Commission's view is that specific grants should only be used for a national priority, or for a national function for which the local authority is an agent. Innovation grants should be limited to a maximum of three years. All existing specific grants should be folded into the RSG unless there is special justification. The Commission also recommends that any further specific grants should be reviewed on a two yearly basis to ascertain if the case for hypothecation remains valid or to decide if the grant is to cease or be incorporated within the RSG.*

*The Commission recommends that the incoming government commits to full and clear multi-year settlements to enable effective long-term planning for local authorities and other public services. The Commission would urge rolling three yearly settlements to allow effective planning and appropriate consultations for required service changes.*

*The Commission supports councils having the freedom to determine fees and charges locally.*

*The Commission recommend that councils are given greater freedom on capital expenditure by de-hypothecating capital grants.*

*The Commission recommends the establishment of a Welsh equivalent of the UK Office for Budget Responsibility (OBR): an advisory, Assembly sponsored public body to provide independent economic forecasts and analysis of the public finances in Wales. It would produce fiscal and economic forecasts and report on the Welsh Government's taxation and expenditure assumptions. It would work alongside the UK OBR. Other duties could include scrutiny of the Government's policy costing and assessing the long term sustainability of the public finances in Wales. The finances of Welsh local government would be reviewed as part of this process.*

*The Commission has received a great deal of evidence about the formula for the RSG being based on outdated data, complex and lacking in transparency. The Commission therefore recommends the existing grant regime is frozen and, for the immediate future, used as the basis for the rolling three year settlements proposed above. This change would provide temporary stability and predictability, allowing councils to plan effectively and assist planning with partner organisations. To improve the system in the longer term, an Independent Grants Commission should be set up to commence work on a more effective and fairer formula for the future. The Commission also believe the Grants Commission should be asked to comment on the use of local authority grants by the Welsh Government and to undertake a periodic review of specific grants. As the Grants Commission would be independent, it would be possible to separate the legitimate role of the Welsh Government in setting the quantum of grant from decisions about grant distribution.*

*The Commission recommends that the City Regions are given the power to add a supplementary business rate, whose sole purpose would be to assist in paying for large capital projects (similar to the way the Crossrail scheme in London has been funded). These powers should be available to other regions as they evolve.*

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|      | <p><i>In the longer-term, the Commission see merit in the idea of a locally-retained share of Welsh Government income tax, or a purer form of local income tax. But in the short term, we are mindful of the fact that any such recommendations would be complicated by the fact that the Welsh Government itself is in the early stages of seeing the devolution of income tax to Wales. Consequently, we recommend considering this issue again in the next five years.</i></p> <p><i>The Commission query whether Wales currently has a suite of outcome performance measures that can effectively judge good performance for councils. The Commission therefore recommends that robust outcome measures are devised to provide a way of ensuring that increased devolution of tax powers can be seen to improve performance.”</i></p> |
| 1.06 | Cabinet has received this report and referred it to full Council for a submission to be made to Welsh Government in support of the recommendations of the Commission. A presentation will be made at the meeting with an outline of a response to encourage debate and collective agreement.  |

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| <b>2.00</b> | <b>RESOURCE IMPLICATIONS</b>  |
| 2.01        | The Medium Term Financial Strategy (MTFS) of the Council involves planning the use of the financial resources of the Council for a three year period.     |
| 2.02        | The recommendations of the Commission advocate the reform of the Local Government Funding System which, if adopted, would support the Council's Strategy. |

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| <b>3.00</b> | <b>CONSULTATIONS REQUIRED / CARRIED OUT</b>  |
| 3.01        | The full Council was consulted and made a written response during the Commission's evidence gathering phase. |

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| <b>4.00</b> | <b>RISK MANAGEMENT</b>  |
| 4.01        | The national reductions in funding for Local Government pose the greatest risk to the governance, performance and sustainability of the Council since the previous reorganisation in the mid-1990s. |
| 4.02        | Reform of the Local Government Funding System is critical to mitigating the risk of reducing public funding levels.   |

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| <b>5.00</b> | <b>APPENDICES</b>  |
| 5.01        | Appendix 1: Executive Summary of the Commission Report.<br><br>Appendix 2: the Council's written response to the Commission's call for |

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| evidence. |
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| <b>6.00</b> | <b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>   |
| 6.01        | <p>Flintshire Medium Term Financial Strategy (MTFS) Part 1 and 2 :</p> <p><a href="http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-1.pdf">http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-1.pdf</a></p> <p><a href="http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-2-September-2015.pdf">http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/Medium-Term-Financial-Strategy-Part-2-September-2015.pdf</a></p> |
| 6.02        | <p>The full report of the Independent Commission:</p> <p><a href="file:///C:/Users/cedilsp/Downloads/160324-Ambition-for-Change---Aiming-Higher%20(2).pdf">file:///C:/Users/cedilsp/Downloads/160324-Ambition-for-Change---Aiming-Higher%20(2).pdf</a></p>   |
| 6.03        | <p>The full report of the earlier English Commission:</p> <p><a href="http://www.localfinancecommission.org/documents/iclgf-final-report">http://www.localfinancecommission.org/documents/iclgf-final-report</a></p>   |
| 6.04        | <p><b>Contact Officer:</b>        <b>Colin Everett</b><br/> <b>Telephone:</b>                <b>01352 702101</b><br/> <b>Email:</b>                        <a href="mailto:chief.executive@flintshire.gov.uk">chief.executive@flintshire.gov.uk</a></p>  |

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| <b>7.00</b> | <b>GLOSSARY OF TERMS</b>   |
| 7.01        | <p><b>Medium Term Financial Strategy (MTFS):</b> a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.</p> |
| 7.02        | <p><b>WLGA:</b> The Welsh Local Government Association represents the interests of local government and promotes local democracy in Wales. It represents the 22 local authorities in Wales and the 3 fire and rescue authorities and 3 national park authorities are associate members.</p>  |