



## **Local Government Commission on Finance for Wales**

### **Introduction**

Flintshire County Council welcomes the appointment of the Commission. The evidence we submit to the Commission is based on:-

- previous oral evidence given to the Commission at its meeting with the North Wales Regional Leadership Board;
- the Council's recently adopted Medium Term Financial Strategy; and
- a full Council debate held on 20th October.

Our evidence is also consistent with the policy positions of the Welsh Local Government Association (WLGA) as our representative body.

### **Impact of the Commission**

The impact the work of the Commission might make through the later adoption and implementation of its recommendations for financial reform by Welsh Government, will be longer-term. The more immediate impact of the Commission's work should be to influence the developing manifesto positions of the political parties contesting the 2016 National Assembly for Wales elections, and the commitments the new Government might make to financial reform in the next term of office post-election.

It must be recognised that in the meantime some councils such as Flintshire are appealing for some shorter-term relief from the pressures of public expenditure reductions through a combination of Government investment choices and the more immediate relaxation of national funding policies which curtail cost recovery in charging.

### **Principles which frame our response**

The following principles have been used to frame the Council response:-

- the principle of localism with the reinforcement of the roles of local governance, self-determination and local accountability to local people;
- the subsidiarity principle of government being most effective at the locality level where it is closest to communities and their needs;
- Government having a duty to set out longer-term and sustainable funding settlements;
- Government fully funding its own policy and legislation;
- the conferment of freedoms and flexibilities for local government for the use of core funding, the raising of local taxation at levels which are justifiable and

- supportable, and in local charging policies to recover the costs of service provision; and
- the principles for central-local relations as set out in the Council's adopted Medium Term Financial Plan.

## **Answering the questions of the Commission in its call for evidence**

### ***Financial overview questions***

*Q: What do you consider to be the strengths and weaknesses of the existing system of local government finance in Wales?*

A: The funding formula provides some predictive certainty if the quantum of funding to be passported through it is known, in advance, to a sufficient extent. The funding formula is though now dated (refer to Part II of the Medium Term Financial Strategy *Meeting the Financial Challenge* (Chapter 3) and the system of annualised settlements, in the absence of longer-term national funding settlements, is a major weakness inhibiting forward planning.

*Q: What should the objectives of central funding be? What kind of grant system should support those objectives?*

A: The objective of central funding should be to provide a resilient funding base for councils to meet their minimum statutory duties and to meet costed Government social, economic and environmental policy objectives and new legislation.

*Q: Are grant distribution mechanisms fit for purpose and what changes would be desirable?*

A: Refer to Part II of the Medium Term Financial Strategy *Meeting the Financial Challenge* (Chapter 3).

*Q: Will the potential structural reorganisation affect the operation of the system? Would it provide an opportunity for a parallel financial reform?*

A: A local government reorganisation would provide the opportunity for longer-term reforms of the funding system and Council Tax equalisation.

*Q: What additional pressures do rurality and deprivation introduce?*

A: These pressures are arguably too heavily weighted in the current Local Government Funding Formula. Refer to Part II of the Medium Term Financial Strategy *Meeting the Financial Challenge* (Chapter 3).

*Q: Are any reforms required to the system of capital expenditure determination and funding?*

A: Yes.

Too large a proportion of capital investment funds is being retained by Welsh Government, for example for selective transport and infrastructure projects, with insufficient funds devolved to regions and to councils for more local determination. The system for national-regional planning needs to be developed further for effective targeting of capital borrowing and grants to jointly agreed priority projects. The Wales-UK inter-governmental planning on infrastructure projects of national importance e.g. rail electrification is not sufficiently developed for forward co-investment planning.

### **Council Tax, Business Rates and other forms of income**

*Q: Is Council Tax fit for purpose? What reforms might be made, if any?  
- Is the non-domestic rate working well? What reforms might be made if any?*

A: Comparatively to England, Wales charges low levels of Council Tax. With such high dependency on Revenue Support Grant and Specific Grants in Wales the Council Tax system no longer generates sufficient local income to counter-balance such significant annualised reductions in central grant contributions. Solutions should include periodic revaluations for changing property values to be properly reflected in the Council Taxation yielding system; the introduction of more higher-end valuation bandings to capture greater taxation contributions from high value properties; more flexibility for progressive local taxation policies without capping limits; the option for local Council Tax supplements to be applied for locally agreed priorities e.g. prudential borrowing in invest in local infrastructure; a fully funded and sustainable Council Tax Reduction Scheme (CTRS).

*Q: Would you favour local government in Wales taking control of additional taxes? If so, which ones?*

A: Yes.

Full retention of National Non-Domestic Business Rates (NNDR) both base and growth, for local taxation to be invested in local infrastructure and local services to businesses, and as a direct incentive to promote economic growth. A compensatory scheme would be required from the Revenue Support Grant system for those councils with low industrial/commercial taxation generating businesses. The option for local taxation supplements to be applied for locally agreed priorities with the business community e.g. prudential borrowing in invest in local infrastructure should be allowed.

Retention of a small proportion of Value Added Tax Treasury income generated in the local area through consumer spend.

Freedom to charge local taxes up to acceptable levels e.g tourism taxes on local hoteliers and fee paying attractions.

A review of the legislation for developer contributions such as S106 agreements to ensure fairer and more assured contributions by developers to local community infrastructure.

*Q: Should incentives for growth play a greater role in the funding system?*

Yes.

As above through, for example, devolution of NNDR.

*Q: Could fees and charges be used to a greater extent than at present?*

Yes.

See Chapter 4 *Working with Welsh Government* of Part II the Council's Medium Term Financial Strategy.

## **Services**

*Q: How do reductions in council expenditure affect the sustainability and quality of services? Might different financing arrangements (not additional resources) improve the outlook?*

A: Refer to Part II of the Medium Term Financial Strategy *Meeting the Financial Challenge* (Chapters 3-5).

*Q: Are there issues relating to the finance of housing which adversely affect local government? If so, do you have suggestions for change?*

A: Flintshire is one of the eleven retained local authority landlords in Wales. Following the Welsh exit from the national HRA system the Council relies upon a consistent and sustainable long-term policy for social housing rents for the stability of the Housing Revenue Account (HRA). Recent application of the rent convergence policy with the set of Registered Social Landlords (RSLs) has not been universally supported and does pose affordability challenges for tenants. The ongoing consideration by Welsh Government of whether to apply the English model of reductions in social housing rents is causing concern that HRAs might be de-stabilised. Councils should have the freedom to set service charging policies which meet local need and are locally supported, without having to follow uniform policies as part of the Welsh Government policy aim of all landlords achieving the Welsh Housing Quality Standard (WHQS) by a deadline year. A sustainable system of Major Repairs Allowance is needed for continued capital investment to achieve and maintain WHQS. The recently agreed capital borrowing allowances for new social house-building by councils is welcomed. Repeat borrowing approvals in later years should be a shared central-local social policy priority.