

## **EDUCATION AND LIFELONG LEARNING COMMITTEE**

This paper was prepared for and discussed by the Local Government and Housing Committee at their Meeting on 18<sup>th</sup> July 2001. It is provided for the Education and Life-Long Learning Committee for information.

## **LOCAL GOVERNMENT FINANCE- PROGRESS REPORT ON THE REVIEW OF THE LOCAL GOVERNMENT FINANCE SYSTEM**

### **PURPOSE**

1. The purpose of this paper is to update the Committee on progress of the review of the local government finance system in Wales.

### **SUMMARY**

2. On 22 September 2000, the Assembly Cabinet published a consultation paper on the reform of local government finance. The paper sought views on ways in which the system could be made simpler and clearer. Responses to this consultation were presented to Committee (see LGH-03-01(p.2)) and discussed in Cabinet (see CAB(00-01)29). Subsequently, officials were charged to make the necessary preparations in partnership with Whitehall colleagues and, where appropriate, representatives of local government, to deliver the proposed changes.
3. The commentary below provides an update on progress in key areas of reform of the local government finance system.

### **TIMING**

4. For those areas of reform requiring primary legislation, timing is uncertain: there was no provision for a local government finance Bill in the first session of the new Parliament. The earliest date for a Bill is thus Autumn 2002. However, the precursor White Paper may be published as early as Autumn 2001. For those areas of reform not subject to primary legislation, changes will be implemented in the course of business.

### **PROGRESS ON THE REFORMS**

## **Revenue Finance**

5. Work is continuing on ensuring that the recently overhauled SSA formula continues to be the most objectively-derived distribution method. A contract has recently been let to collect data to feed into the distribution formula for personal social services. It is planned to use this data in the formula for the 2004-5 financial year. This work does not require the passing of primary legislation.
6. Last year the Assembly and Local Government determined to continue to use an SSA formula as the major means of distributing revenue support to local authorities in Wales. Work continues to develop and improve various elements of the formula agreed last year. Work also continues on the development of policy agreements which cover the outcome related distribution of support to local authorities.
7. It is intended to review the setting of fees and charges by local authorities, including the provision of guidance and a rationalisation of the fees and charges set by the Assembly.

## **The Capital Finance System**

8. The introduction of the 'Prudential Borrowing System' will require primary legislation. However, preparatory work is underway: we are working with Whitehall departments to determine how the system might operate in practice, and the Chartered Institute of Public Finance and Accountancy (CIPFA) has begun work on its professional code. Compliance with this code will be a statutory obligation under the new system. It is intended that a draft code will be published in November; the Assembly, the Welsh Local Government Association (WLGA) and the Society of Welsh Treasurers are represented on the CIPFA steering group.
9. It should be noted that the views of HM Treasury are awaited on a variety of issues, for example long-stop borrowing limits. These will be crucial to the eventual workings of the new system.
10. Other elements of reform within the capital finance system, such as review of the approved investment and leasing regulations, do not require primary legislation. Discussions on these are on-going with our local government partners through the Capital Finance System Task and Finish Group.

## **Council Tax**

11. A 10 yearly revaluation cycle was identified as the preferred option for council tax. The Assembly can undertake a revaluation independently of England and is not required to opt for the same start date for its cycle. This is because revaluation and resetting of the council tax bands do not require primary legislation. However, the Office of the Counsel General advises that changes to the number of bands does require such legislation.
12. Discussions have begun with local government on the form and layout of council tax bills and supporting documentation in order to improve their clarity and usefulness. This will

also cover the provision of this information in electronic format.

## **Business Rates**

13. The development of a Wales based supplementary rate scheme is continuing, as is the development of a scheme of rate relief for small businesses. There will be appropriate consultation before final decisions are made.

## **COMPLIANCE**

14. The Local Government Finance Report setting out how much revenue support grant the Assembly proposes to distribute to councils and police authorities is made in accordance with the requirements of section 45 of the Government of Wales Act 1998.
15. The power to make regulations under Part IV of the Local Government and Housing Act 1989 is transferred to the Assembly. This covers aspects of the capital finance system discussed above other than the introduction of the prudential borrowing system, which would require primary legislation.
16. The Assembly has the power to alter the valuation bands by order under section 5 of the Local Government Finance Act 1992 and, by virtue of the provisions of section 25 of that Act, the making of such an order has the effect of requiring a revaluation to be carried out.
17. Primary legislation would be required to introduce a supplementary local rate and a rate relief scheme for small businesses.

## **CROSS CUTTING THEMES**

18. Many of the items contained in this paper have implications for education, social services and the business sector. Copies of this paper have, therefore, been sent to the Chairs of the Education and Life-long Learning Committee, the Health and Social Services Committee, and the Economic Development Committee, to give them an opportunity to comment.

## **ACTION FOR THE COMMITTEE**

19. The Committee is invited to note and comment upon progress.
20. Contact Point: Alan Thornton, Local Government Finance Division, Ext.1367