

## Local Government and Housing Committee

**Date:** 12 January 2022

**Time:** 10.30am – 12pm

**Title:** Welsh Government Draft Budget Scrutiny 2022-23

### Introduction

The Draft Budget includes spending plans for 2022-23. This paper provides evidence to the Committee on the future programme budget proposals in relation to the Local Government budgets within the Finance and Local Government MEG as outlined in the Draft Budget which was laid on 20 December 2021.

Annex A provides a breakdown of the relevant Draft Budget figures for the Finance and Local Government Main Expenditure Group (MEG) by Spending Programme Area, Action and Budget Expenditure Line (BEL). These figures are reflected in the table below.

### Financial Tables

	2021-22 Final Budget £'000	2022-23 Draft Budget £'000	Change £'000	% Change	2023-24 Draft Budget £'000	2024-25 Draft Budget £'000
Revenue	3,983,584	4,248,173	264,589	7%	4,332,499	4,435,742
Non Cash	0	0	0	0	0	0
<b>Total Resource</b>	<b>3,983,584</b>	<b>4,248,173</b>	<b>264,589</b>	<b>7%</b>	<b>4,332,499</b>	<b>4,435,742</b>
Capital	197,837	150,000	-47,837	-24.2%	200,000	200,000
Financial Transactions	0	0	0	0	0	0
<b>Total Capital</b>	<b>197,837</b>	<b>150,000</b>	<b>-47,837</b>	<b>-24.2%</b>	<b>200,000</b>	<b>200,000</b>

### Programme for Government Commitments

The Local Government budgets support the delivery of a number of Programme for Government commitments as set out below.

#### Seek to reform council tax to ensure a fairer and more progressive system

I announced my plans for the reform of the council tax system on 7 December. Provision for this work is made through the Local Taxation, Research and Analysis BEL. Further information is provided under the 'Budget Allocations' section of this document.

## **Make the case for clear and stable tax devolution**

The two local taxes, council tax and non-domestic rates, are integral part of the local government finance system in Wales. Alongside my plans for reforming the council tax system, on 7 December, I set out the need to consider reforms to the non-domestic rates system. Much of the local government finance system predates devolution and, while the policy responsibilities for the two taxes are largely devolved, certain aspects of the system remain closely intertwined with the arrangements in England. One of our objectives in reviewing both the local taxes will be to define the devolved powers more clearly and secure greater autonomy for the Welsh Ministers and the Senedd in relation to decision-making so that we can ensure the local taxes are designed to best meet the needs of Wales.

Provision for this work is also made through the Local Taxation, Research and Analysis BEL. Further information is provided under the 'Budget Allocations' section of this document.

## **Strengthen the autonomy and effectiveness of local government to make them more successful in delivering services**

This Programme for Government commitment will be delivered through the funding for local government sector-led improvement, including around digital transformation (which also delivers against the PfG commitment to deliver the Digital Strategy), through the Transformation and Legislation BEL. Work to improve Community Council financial management and governance is funded by the Community and Town Council BEL and an allocation from the Transformation and Legislation BEL.

Any direct engagement with local authority specific statutory intervention and support programmes are funded through the Improvement and Support BEL. Other work which will contribute includes our financial reform and work on reforming council tax; and increasing democratic participation. This will be funded through the Transformation and Legislation BEL and the Local Taxation, Research and Analysis BEL.

## **Reduce the Administrative burden on local authorities**

There are no funding implications for this commitment in 2022-23. The intention is to scope the work next year, working with WLGA and across Welsh Government, recognising that the administrative burdens could come from a range of portfolio areas. The exercise would then be undertaken in the second half of this term.

## **Explore & develop effective tax, planning and housing measures to ensure the interests of local people are protected**

As part of the three-pronged approach announced by the Minister for Climate Change in July, the Welsh Government recently consulted on possible changes to the local taxes to help local authorities in managing the impact of second homes and self-catered accommodation in their areas. The responses are being considered and will inform future policy development. The Local Taxation, Research and Analysis BEL includes provision for implementing any changes and the additional analyses of information on second homes and self-catering accommodation within the local tax-base.

## **Reform local government elections to reduce the democratic deficit**

This commitment is being delivered in two phases, the first to May 2022 will pilot a range of flexible voting options for voters in four local authority areas. This work will then be evaluated and considered for roll out across Wales in advance of our next scheduled sets of devolved elections in 2026 and 2027. The second phase of the work is also looking at how further reforms to voter information and engagement and improved accessibility to the electoral system can encourage more voters to engage with the democratic process. This work is being undertaken in conjunction with work on expanding the access to elected office programme and increasing diversity in democracy. This work will be funded from the Elections Policy BEL and funding provided to principal councils through the RSG, which also recognises the costs of implementing the Local Government and Elections (Wales) Act 2021.

## **Expand our Access to Elected Office programme**

I have established a pilot Access to Elected Office fund which ran in advance of the Senedd elections last year and will now be available to candidates with disabilities in the forthcoming principal council and town and community council elections. This pilot will be evaluated and the learning will be used to consider how the fund and other forms of potential support could be improved and expanded to encompass people with other protected characteristics. This work will be funded from the Transformation and Legislation BEL.

## **Delivery of the Local Government Chapter in the Race Equality Action Plan**

The Welsh Government is committed to enabling an anti-racist Wales. As part of this I will ensure the legislative and governance framework for local government promotes actions and decision making that is anti-racist. I am taking forward a range of changes to the legislative framework to ensure local authority governance takes place within a statutory framework that supports equality and diversity and actively promotes anti-racism. This will also enable local government to review its own recruitment, internal human resources policies and complaints processes to ensure they are anti-racist. This work will be funded from the Transformation and Legislation BEL.

## **Ensure that each region in Wales has effective and democratically accountable means of developing their future economies**

Specific grant funding was provided in 2021-2022 to help regions put in place arrangements to establish the constitutional arrangements for their Corporate Joint Committees and transition across existing regional governance arrangements as appropriate.

Going forward this is reflected in the core funding received through the unhypothecated Local Government Settlement, to reflect the fact that undertaking and supporting collaboration between local authorities is part of the core operating model for local government. As set out below, the Local Government settlement has increased significantly to £5.1 billion in 2022-2023.

## **Change the performance framework for local government to better enable innovation, transparency, and local ownership**

This relates to implementation of the new performance and governance regime in the Local Government and Elections (Wales) Act 2021. Support for local authorities to undertake self-assessments and panel assessments is provided through the local government sector-led Improvement and Support Programme, funded through the Transformation and Legislation BEL.

Any direct engagement with local authority specific statutory intervention and support programmes are funded through the Improvement and Support BEL.

## **Budget allocations**

The Local Government Directorate supports the delivery of a number of Programme for Government commitments as detailed above. In accordance with Welsh Government budget management principles, allocations to support the delivery of these commitments have been targeted towards interventions that are affordable and offer value for money. Details of the allocations and the PfG commitments they support are provided below.

A Strategic Integrated Impact Assessment was published alongside our Draft Budget on 20 December; this sets out how our interventions have been targeted to address economic, climate and other impacts. Allocations have been made throughout this portfolio to address impacts that have been identified and with the principles of the Wellbeing of Future Generations Act in mind. These details are provided throughout this paper.

The well-being duty in the Well-being of Future Generations (Wales) Act 2015 continues to shape our ongoing improvements to our budget process. These are set out in our Budget Improvement Plan, developed through engagement with the Future Generations Commission, where we publish annually a rolling five year plan of continuous improvement to budgeting and tax processes to further embed the sustainable development principle.

This year it has influenced the budget because the well-being objectives set by this Government in its Programme for Government have been at the heart of the budget process. Setting the well-being objectives early in this term has enabled these to form part of the budget discussions.

The Well-Being of Future Generations (Wales) Act 2015 has been taken into consideration when making **budget allocations** as set out below.

## Revenue

### Revenue Support Grant

The revenue support grant (RSG), together with non-domestic rates forms the local government settlement. The increase in the RSG for 2022-23 is £368m (10.2%) leading to an overall increase in the settlement on a like for like basis of £437m (9.4%).

Local government is a key partner in delivering the programme for government. Providing this significant funding un-hypothecated means local authorities have the flexibility to plan, fund and deliver their services in the way that works best for their local populations.

The Wellbeing of Future Generations Act requires local authorities, alongside other public bodies, in Wales to think about the long-term impact of their decisions, to work better with people, communities and each other, and to prevent persistent problems such as poverty, health inequalities and climate change. Local authorities are responsible for considering impact assessments and the Socio Economic Duty in the decisions they make about delivery of their services.

The Government has worked closely with Local Government through the WLGA and through the Finance Sub Group, to understand the pressures faced by local authorities and our shared ambitions for local government services. Our funding decisions, reflected through the Local Government settlement, and specific grants, recognise increases in demand, inflation and pay awards for hard working staff as well as our mutual ambitions for essential services for the people of Wales. Social care is one area in particular where there are significant pressures, from increasing and increasingly complex demands. This significantly increased funding allows authorities to deliver on our shared commitment to the payment of the real living wage to social care staff.

We also know that following the pandemic the way that services are delivered and the way people use services have changed and that some of these changes are permanent. There is no separate local government hardship fund for 2022-23 onwards as there has been no specific funding from the UK Government for Covid recovery. However the increase in the settlement is such that it gives local authorities flexibility to continue to manage additional costs and loss of income. The WLGA estimated this at £75.5m for the 2022-23 year. They will also be working with their partners who deliver services, for example arts and leisure trusts to manage the ongoing impact of the pandemic.

The increase in in the settlement gives the support for local authorities to start to address these challenges, with funding sufficient to meet increased wage forecasts and inflation. There will inevitably still be pressures and we will continue to work closely with the sector. In addition the provision of overall funding levels for 2023-24 and 2024-25 will enable local authorities to plan over a three year basis.

Alongside the settlement there is a large number of grants given for specific outcomes, these include those to recover from the pandemic – for example in education. The total of specific grants for 2022-23 is over £1.1 billion for revenue and almost £800 million in capital.

## **Rates Relief and Multiplier Freeze**

An additional £105m has been allocated for non-domestic rates (NDR) support in 2022-23 (BEL 875). This has been allocated to extending our relief scheme for businesses and other ratepayers in the retail, leisure and hospitality sectors.

In addition, £35m has been allocated to the Non-Domestic Rates Pool to freeze the multiplier for 2022-23. The decision to freeze the multiplier will ensure that, before applying any reliefs, there will be no increase in the amount of rates which businesses and other ratepayers pay next year. The funding will be managed through the non-domestic rates pool to ensure that the overall funding which local authorities receive through the local government settlement is unaffected.

Our Retail, Leisure and Hospitality Rates Relief (RLHRR) scheme will be extended to provide continued support for the sectors most directly affected by the Covid-19 pandemic. The scheme will provide an additional £116m of rates relief for eligible businesses in 2022-23. The balance between the cost of the scheme and the additional allocation will be met from the existing baseline provision.

All retail, leisure and hospitality ratepayers in Wales will receive up to 50% relief on their rates bills for the year. Like the equivalent scheme announced for England, our scheme will be capped at £110,000 of relief per business across Wales.

Our approach ensures that businesses in Wales will not be disadvantaged compared to other parts of the UK.

## **Allocation for Local Government Directorate to reform the local taxes**

As mentioned above, the updated Programme for Government includes a commitment to 'seek to reform council tax to ensure a fairer and more progressive system'. There are a number of other commitments which are relevant to the development of the local taxes in Wales, including to 'make the case for clear and stable tax devolution' and to 'strengthen the autonomy and effectiveness of local government to make them more successful in delivering services'. The local taxes also have a contribution to make to the commitment to 'explore and develop effective tax, planning and housing measures to ensure the interests of local people are protected'.

Based on extensive work conducted over the 5<sup>th</sup> Senedd Term, on 7 December, I announced an ambitious package of reforms to council tax as the first steps in redesigning the system so that it becomes more progressive. The package includes the potential for a revaluation exercise, a review of the council tax reduction scheme and consideration of whether our system of discounts, exemptions and premiums could help to achieve a fairer system.

Work will also continue on exploring longer term ideas such as whether a system more closely linked to land values has potential as a more progressive way of raising revenue and what reforms are needed to the non-domestic rates system.

Alongside these plans, the Welsh Government recently conducted a consultation looking at possible changes to the local taxes which might support local authorities in

managing the impact of second homes and self-catered accommodation in their areas. The responses are being analysed with a view to informing future policy developments.

The allocation of £2.8m to the Local Taxation Research and Analysis budget in 2022-23 will support the delivery of this package of work, including the technical work required to support a possible council tax revaluation, the assessment of options for reforming non-domestic rates and the detailed exploration of the feasibility of a land value tax as an alternative way of raising revenue for local services.

### **Allocation for Transformation and Legislation**

The additional allocation of Transformation and Legislation budget of £1.3m in 2022-23 supports the continued work to implement the Local Government and Elections (Wales) Act 2021 and the transformation in local government. The planned work includes the further implementation of digital transformation, as well as facilitating decarbonisation initiatives in local government, supporting local government improvement functions, and enabling the development of community councils. The budget will also support work to improve access to elected office and the implementation of the Race Equality Action Plan within local government, as well as support work related to the wider reform of the local government finance system.

### **Allocation for NDR revaluation**

All non-domestic properties are revalued for rating purposes according to timetables set out in law. The next revaluation will take effect on 1 April 2023 based on properties values assessed as at 1 April 2021. The additional allocation of £3.7m in 2022-23 will support the associated work, including the additional costs of valuation work carried out by the Valuation Office Agency in delivering the revaluation for Wales (BEL 1500).

Revaluation maintains the integrity of the tax-base which raises around £1.4bn of revenue each year for local services in Wales. As well as supporting the statutory functions, the revaluation will reflect market conditions, including the impact of Covid, and will redistribute liability for non-domestic rates across the tax-base.

### **Allocation to reform LG elections**

Reflecting recently devolved powers to Welsh Ministers, this allocation of £2m in 2022-23 creates a new budget to specifically support the reform of electoral administration for devolved elections by improving the accessibility of the voting process for voters, including through the use of technology and improving voter information and engagement with the democratic process.

# Capital

## Local Government

The local government supported borrowing allocation of £88.8m continues at the same level as previous years for the period of this budget. This supports authorities to borrow as part of their capital programmes to increase the level of investment over and above that provided by specific grants.

The highways refurbishment grant of £20m ended on 31 March 2022, this was a time limited grant introduced in the 2017-18 supplementary budget and subsequently extended for 4 years. The general capital funding has also decreased in 2022-23 by £27.8m to enable the overall management of capital budgets and commitments across Welsh Government including specific grants to local government such as Sustainable Communities for Learning (formerly 21<sup>st</sup> century schools and colleges). Capital programmes are managed over a multi-year period and funding increases again to £200m from 2023-24. Recognising the priority which needs to be given to responding to the nature and climate emergency, consideration will be given to whether part of this increase should be directed specifically to address decarbonisation and support Net Zero Wales. This will be undertaken in discussion with Local Government as part of the ongoing programme of work overseen through the Partnership Council for Wales, the WLGA and the Decarbonisation Panel.



<b>EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MAIN EXPENDITURE GROUP (MEG)</b>				
<b>RESOURCE BUDGET</b>				
<b>MEG</b>	<b>BEL</b>	<b>2021-22 Final Budget £000's</b>	<b>Changes £000's</b>	<b>New Plans Draft Budget 2022-23 £000's</b>
<b>Finance &amp; Local Government</b>	Local Govt Gen Rev Funding	3,609,542	354,812	3,964,354
	Police General Revenue Funding	88,350	23,985	112,335
	Non Domestic Rates - Rates Relief	27,700	105,000	132,700
	Local Govt PFI Revenue Consequences	2,992	-132	2,860
	Transformation & Legislation	6,175	2,259	8,434
	Non Domestic Rates Collection Costs	5,172		5,172
	Emergency Financial Assistance	229,871	-229,870	1
	<b>Total Funding Support for Local Government Action</b>	<b>3,969,802</b>	<b>256,054</b>	<b>4,225,856</b>
	Valuation Office Agency Services	8,561	3,735	12,296
	Valuation Tribunal for Wales	1,039		1,039
	Local Taxation Research & Analysis	100	2,800	2,900
	Council Tax Reduction Scheme	0		0
	<b>Total Valuation Services Action</b>	<b>9,700</b>	<b>6,535</b>	<b>16,235</b>
	<b>Total Local Government Funding SPA</b>	<b>3,979,502</b>	<b>262,589</b>	<b>4,242,091</b>
	Local Democracy and Boundary Commission	598		598
	Local Government Democracy	126		126
	Election Policy	0	2,000	2,000
	<b>Total Building Local Democracy Action</b>	<b>724</b>	<b>2,000</b>	<b>2,724</b>
	Improvement & Support	1,550		1,550
	<b>Total Local Government Improvement Action</b>	<b>1,550</b>	<b>0</b>	<b>1,550</b>
	Academi Wales	1,134		1,134
	<b>Total Academi Wales Action</b>	<b>1,134</b>	<b>0</b>	<b>1,134</b>
	Community and Town Councils	144		144
	Public Services Boards	530		530
	<b>Total Supporting Collaboration &amp; Reform Action</b>	<b>674</b>	<b>0</b>	<b>674</b>
	<b>Total Improving Services, Collaboration &amp; Democracy SPA</b>	<b>4,082</b>	<b>2,000</b>	<b>6,082</b>
		<b>EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MEG TOTAL RESOURCE BUDGET</b>	<b>3,983,584</b>	<b>264,589</b>

**EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MAIN EXPENDITURE GROUP (MEG)**

<b>CAPITAL BUDGET</b>				
<b>MEG</b>	<b>BEL</b>	<b>2021-22 Final Budget £000's</b>	<b>Changes £000's</b>	<b>New Plans Draft Budget 2022-23 £000's</b>
<b>Finance &amp; Local Government</b>	Local Government General Capital Funding	197,837	-47,837	150,000
	<b>Total Local Government General Capital Funding Action</b>	<b>197,837</b>	<b>-47,837</b>	<b>150,000</b>
	<b>Total Local Government General Capital Funding SPA</b>	<b>197,837</b>	<b>-47,837</b>	<b>150,000</b>
	<b>EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MEG TOTAL CAPITAL BUDGET</b>	<b>197,837</b>	<b>-47,837</b>	<b>150,000</b>