

# Local Government Finance and Funding

Petitions Committee | 17 January 2017

## Research Briefing:

Petition P-05-730

Petition Title: Local Government Finance and Funding

We call on the National Assembly for Wales to urge the Welsh Government to:

- a. To increase aggregate external financing (revenue) to local authorities to at least the levels that applied in 2013/14 in real terms
- b. Introduce legislation that provides a 'power of general competence' for local authorities in Wales
- c. Encourage local authorities to use their existing powers to provide goods and services to other parts of the public sector in Wales, and to explore and to trade by developing the range of goods and services that can be supplied to members of the public in general and to the private sector more generally
- d. Work with local authorities in Wales to release existing revenue streams through, for example refinancing or replacing PFI schemes on more favourable terms utilising the opportunities afforded by historically low interest rates
- e. Undertake, to support the work of the Independent Commission on Local Government Finance Wales.

We the undersigned value the services provided by local councils in Wales and believe that by implementing these measures the Welsh Government will help to prevent further damage to local public service provision; whilst recognising that these measures are only part of the solution and an end to the Westminster Government austerity programme will be necessary to ensure that public services could be sustainably and adequately funded into the future.

### 1. Introduction

Local Government is one of the largest Main Expenditure Groups (MEGs) for the Welsh Government and in the last budget received the second highest expenditure after the Health,

Well-being and Sport MEG. Local authorities receive the majority of their funding from Welsh Government through the local government settlement.

As described in the Wales Audit Office report [Financial resilience of local authorities in Wales 2015–16](#), since 2010 the UK government has reduced spending on public services as part of its plans to reduce the UK deficit. This in turn has led to lower budgets for the Welsh Government and means Aggregate External Finance for local authorities has reduced each year since 2010.

## 2. Aggregate External Financing (revenue) in local authorities

Aggregate External Finance (AEF) is the name given to the money distributed by the Welsh Government through the settlement. This also includes redistributed non-domestic rates.

Local authorities receive the majority of their revenue funding through the [Local Government Settlement](#), this is published each year following the publication of the budget. The Welsh Government provides approximately 80% of the money allocated to local authorities. Funding is distributed between the 22 local authorities on the basis of a needs based formula.

The [Final Local Government Revenue and Capital Settlement for 2017–18](#) allocated £4.1 billion of revenue funding for local government in Wales. The 2017–18 settlement represented the first cash increase since 2013–14. However, it is still a real terms cut in funding for local authorities.

## 3. General Power of Competence

Local authorities in Wales are able to exercise their functions under the ‘well-being’ power under the [Local Government Act \(2000\)](#). The well-being power enables local authorities to act in any way which they consider would improve the economic, social or environmental well-being of their area or people in their area, as long as it is not otherwise prohibited from doing so by other legislation.

The [Draft Local Government Bill \(2015\)](#) contained provision for a general power of competence. This draft Bill is no longer likely to proceed and [new reform proposals are currently being prepared](#). The [Localism Act 2011](#) introduced a general power of competence for authorities in England.

The [general power of competence](#) replaces the well-being powers of local authorities and allows those organisations to “do anything that individuals may generally do”. There are a number of limitations, for instance the local authority cannot use the power to raise taxes (beyond current powers), expand power to create byelaws and the authority is limited by anything prohibited by statute.

The Welsh Local Government Association has called for a general power of competence for local authorities and in their evidence to the national assembly regarding the Draft Local Government Bill, [welcomed its inclusion in the proposals](#).

In his letter to this Committee regarding this petition the Cabinet Secretary for Finance and Local Government advises:

To provide further support, we are considering the scope to introduce a general power of competence at the earliest legislative opportunity.

#### **4. Provision of goods and services by local authorities and powers to trade**

The [Local Government Act 2003](#) (section 93 to 98) contains provision for local authorities to develop new streams of income. The Act allows local authorities to trade by establishing local authority trading companies where authorities have a statutory power to perform the service which is subject to trading.

The Auditor General for Wales and the Wales Audit Office have recently published a [report on the use of local authorities powers to introduce and increase charges on services](#). The Auditor General concluded that:

local authorities are not currently pursuing all options to generate income due to weaknesses in their policies and in how they use data and information to support decision making.

The AGW report also finds that the [Localism Act 2011](#) has provided a clear statement of powers for local authorities in England, such as the general power of competence. This has resulted in more local authorities 'identifying and taking income' raising opportunities. The general power, through allowing a local authority to 'do anything an individual may do', allows local authorities to trade in a wider variety of services. Local authorities in Wales are limited in not being able to trade with individuals where they already have a statutory duty to provide that individual with the service.

In his letter the Cabinet Secretary for Finance and Local Government advises that local authorities have a number of financial tools currently available to them:

A range of innovative activities are being undertaken by authorities and it is important for all authorities to learn from these experiences and to adopt good practice. It is particularly important for authorities to continue to look for savings in administrative functions so that the available resources can be channelled towards frontline services. Authorities need to balance the opportunities for generating income with providing for the needs of their communities.

## 5. Refinancing of Private Finance Initiatives

[Private Finance Initiative \(PFI\) projects](#) are a type of public-private partnership (PPP) used to fund major capital investments. A typical PFI project has private sector responsibility for design and build of the asset and for the running of the asset. The private firm is also responsible for raising the finance necessary to do this. The public sector body then buys into a service, rather than acquiring an asset and pays an ongoing 'unitary charge'. Refinancing of PFI is mechanism by which a local authority may negotiate and change the project's original financing arrangements.

The Welsh Government provides financial support for the capital element of previously approved PFI schemes. Local authorities are responsible for securing best value for their schemes. In his letter to this Committee, the Cabinet Secretary advises that the Welsh Government will continue to 'encourage' local authorities to pursue refinancing of PFI and that many local authorities are doing so. [HM Treasury collects data on PFI and PFI 2 projects](#). The most recent data relates to 2014-15. This shows that there are 28 PFI projects operating in Wales, of these 10 were procured by local authorities.

## 6. The Independent Commission on Local Government Finance Wales.

The [Independent Commission on Local Government Finance Wales](#) was established by the Welsh Local Government Association (WLGA) and the Chartered Institute for Public Finance and Accountancy (CIPFA). Its Final Report, [Local Government Finance Wales, Ambition for Change: Aiming Higher](#), was launched on 24 March 2016 (a summary of the proposed reforms is outlined in the Annex).

The Welsh Government has indicated that the work of the commission will be considered as part of the wider reform work currently being undertaken. The Welsh Government's programme for government; Taking Wales Forward contains a commitment to:

Reform local government funding to make councils more sustainable and self-sufficient using the findings of the independent commission on local government finance and Welsh Government's Finance Futures Panel.

When asked about the work of the independent commission in his [oral evidence to the Equality, Local Government and Communities Committee in July 2016](#), the Cabinet Secretary for Finance and Local Government outlined that the report contained some 'strong recommendations' which he would look to discuss with the WLGA, but also that there were some which were 'potentially problematic', highlighting the 100% retention of business rates as such an issue.

In his letter to the Petitions Committee the Cabinet Secretary stated the report:

is a helpful contribution to the thinking on the development of a local government finance system which is more resilient.

Every effort is made to ensure that the information contained in this briefing is correct at the time of publication. Readers should be aware that these briefings are not necessarily updated or otherwise amended to reflect subsequent changes.