

# **Local Government and Public Services Committee**

**LGPS(2)-06-06(p.1)**

**Meeting date: Thursday 30 March 2006**

**Venue: Committee Room 3, Senedd, National Assembly for Wales**

**Title: Three Year Revenue and Capital Settlements – Emerging Themes**

## **Purpose**

This paper is intended to inform the Committee on the emerging themes for introducing Three Year Revenue and Capital Settlements in Wales as informed by responses to the consultation exercise which ended recently.

## **Recommendation**

That the Committee notes the paper and comments as appropriate.

## **Timing**

This is an interim report on the emerging themes. Views expressed on this report will be taken into account in preparing an action plan which will be presented to the Committee and to the Consultative Forum on Finance in the summer.

## **Background**

A consultation document entitled "Three Year Revenue and Capital Settlements in Wales" was issued to all Local Authorities and Town and Community Councils in Wales along with all Assembly Members and other interested parties on 1 November 2005. The consultation ended on 28 January 2006.

A total of 50 responses were received. Responses were received from the WLGA, 13 County and County Borough Councils, 1 Police Authority, 1 Fire Authority, 2 National Parks Authorities, 28 Town and Community Councils and 4 others.

## **Consideration**

On the whole, local government supported the principal of three year settlements (TYS) however it was

clear from the responses that the detail needs careful consideration and we are grateful for the investment of time and effort that has been put into providing, in some cases, detailed responses.

The consultation document was divided into 5 chapters (excluding the introduction). Each chapter ended with a number of questions to help focus the responses to the consultation.

The sections below reflect on the comments received in respect of each these chapters.

## **Chapter 2 : Objectives and coverage of three year settlements**

The consultation responses recognised the importance of three year settlements being seen as part of the wider strategic and policy planning framework. The action plan should take account of the actions needed to ensure that the linkages with three year settlements are reflected in the strategic and policy planning process. Ultimately any action plan needs to be grounded in improving local government service delivery.

CIPFA in its response made reference to its working group on improved forecasting and rolling budgeting in the public services. The report of this group will be a useful contribution to our own planning.

The consultation responses in the main supported the list of bodies identified within the report being covered by the TYS process. Some responses also made reference to the inclusion of local health boards within this list. However, the main point made was that the ability to plan effectively would be limited if any of these bodies were excluded. We received responses from individual bodies such as National Parks and Police Authorities which were similarly supportive of the principle in respect of these bodies.

In terms of community councils, the consultation exercise elicited a number of responses. The responses in the main made reference to the relative small amounts of money raised by community councils and the associated difficulty that created in providing the flexibility to these authorities to manage budgets over a three year period. However some argued that larger community councils had greater scope to be included.

To make the TYS effective, the consultation responses stressed the importance of as many hypothecated grants as possible being included within the coverage of three year settlements. While there was support for defining a set of principles for determining what grants should be outside the scope of the TYS process, some of the responses argued that the principles presented in the consultation document needed refining to allow more grants to be included within the process.

## **Chapter 3 : The Budget Process and the Legal Framework**

A number of responses raised the issue as to how a TYS process would deal with changes in Administrations both in the Assembly and in local authorities during the course of the three year period

which could lead to a change in budget priorities.

There was some support for the principle of a minimum increase "floor" mechanism as set out in para 3.3 however there was also concern that the level of certainty that could be placed on this figure would influence the credibility that could be placed on the medium term financial planning process.

The responses indicated a clear preference to introduce any mechanism within the existing legal framework if that was possible and allow consideration of legal changes over a longer timeframe.

## **Chapter 4 : The Revenue Settlement**

It was recognised by a number of the consultees that the attempting to introduce a TYS process from 2007-08 would have very limited value and that there was more value in aligning the timetable with HM Treasury's Spending Review cycle. This would potentially lead to the first three year settlement cycle beginning in 2008-09.

The issue of the management of the formula and the data over the three year cycle elicited more differences of view than any other part of the consultation paper. Some responses argued for the overall quantum for local authorities to be fixed over the period and let the individual allocations be adjusted on an annual basis to take account of formula and data changes. Other responses argued that the formula and the quantum should be fixed but allow the data to be updated. Other responses again supported the principal of fixing everything for two years and have a third year allocation as indicative.

Those that argued to retain a degree of flexibility around the formula and the data, generally supported the introduction of some sort of minimum guarantee to provide a degree of certainty of funding over the three year cycle.

## **Chapter 5 : The Capital Settlement**

The majority of responses to comment on the treatment of the capital settlement within a TYS process indicated their desire for the treatment of capital to be consistent with the revenue settlement.

Other responses reflected on the fact that typically capital expenditure needed to be planned over longer time horizons and that this increased the importance of having a funding approach that supported the planning framework.

## **Chapter 6 : Expenditure Planning and Service Specific Issues**

The consultation responses expressed strong support for continuing the ESG process on an annual rolling basis although recognising that the reports in those years leading up to the start of a new three year cycle would be more comprehensive with the intervening reports providing interim updates on how predicted expenditure relates to actual expenditure.

The consultation responses confirmed support for the HRA subsidy to also move to a three year basis although it was clear from the responses that this was a complex area and needed specific consideration.

## **Chapter 7 : Better Strategic Resource and Financial Planning**

The consultation responses to this chapter reinforced the message that in order to fully realise the potential benefits it will be important to ensure commitment across the Assembly Government to integrating the policy and associated funding into the three year cycle.

Across local government as well the view was expressed that collaboration, communication and integration are the key elements to the success of three year financial settlement. Some responses also felt that having a system that was simple and transparent was also key to the success of the project.

However reference was also made to other major exercises which had the potential to impact on the future of direction of local government including Making the Connections and the Lyons inquiry.

In terms of taking the work forward, the consultation responses also highlighted the continued importance of involving key bodies such as the Society of Welsh Treasurers; Wales Audit Office and CIPFA. With this in a meeting of the TYS Working Group is being arranged and arrangements are being made by CIPFA for further seminars on the subject.

### **Next Steps**

It is planned produce an action plan which takes account of the responses from the consultation exercise along with any further comments the Committee may have. This plan will be presented to the Three-Year Settlement Working Group which is made up of Assembly Officials from the different policy interests within the Assembly Government and local government finance officers before being presented to the 10 July meeting of the Consultative Forum on Finance.

### **Compliance**

There are no specific compliance issues arising from this paper.

### **Financial Implications**

There are no direct financial implications arising from this paper. The implementation of three year settlements may impact on the distribution of resources across local government but not on the overall quantum. The extent of this impact is a consideration in the development of the action plan.

### **Action for LGPS Committee**

To comment as appropriate.

Sue Essex AM

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