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Y Pwyllgor Cymunedau, Cydraddoldeb a Llywodraeth Leol

Bil Llywodraeth Leol (Cymru): Cyfnod 1

Ymateb gan: Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth

# **Consultation on the Local Government (Wales) Bill**

**A Submission by:**

**The Chartered Institute of Public  
Finance and Accountancy**

**March 2015**

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

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## **1. Executive Summary**

- 1.1 CIPFA believes that the mergers of councils should be based on the need to deliver an effective and optimum level of public services. The Welsh Government should ensure any voluntary mergers are de-politicised and decisions are based on a configuration for the optimum provision of public services.
- 1.2 Any boundary re-drawing for the new authorities should be independently completed and the basis for boundary re-drawing established and agreed based on public service provision, taking account of both local need and ability to deliver by the new authorities.
- 1.3 The Explanatory Memorandum<sup>1</sup> for the bill outlines that under the Bill provisions; there will be costs of £1.117m for the Welsh Government and £1.219m for Local Government, the latter being the costs of establishing joint transition committees minus savings made after implementing boundary commission reviews. The Bill provisions do not adequately address the full overall eventual costs of merger. CIPFA has previously estimated this to range between £160m and £268m,<sup>2</sup> which are likely to place an increased financial burden on local government in Wales at a time when budgets are under increasing pressure.
- 1.4 Urgent consideration should be given to clearly identifying the powers and transaction abilities of both the Transition Committees and Shadow Authorities to minimise risk and ensure appropriate scrutiny and value for money is in place. If not identified in the body of the legislation, these powers should be clearly identified in merger regulations issued by the Welsh Government.
- 1.5 The Welsh Government should outline overall objectives for the merger of Local Authorities in Wales in terms of anticipated efficiencies and savings. These will provide a context for establishing the structures and setting budgets for the new principal authorities.

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<sup>1</sup> National Assembly for Wales, Local Government (Wales) Bill – Explanatory Memorandum, Part 2, January 2014.

<sup>2</sup> CIPFA Report for the Welsh Local Government Association, Report on the Transitional Costs, Benefits and Risks of Local Government Reorganisation, November 2014

## **2. Basis of Mergers**

- 2.1 CIPFA believes that the mergers of councils should be based on the need to deliver an effective and optimum level of public services. The proposed legislation to allow a system of voluntary mergers could lead to merger proposals based on political judgements rather than the best fit for service delivery and the current financial position of authorities.
- 2.2 CIPFA has previously presented a blueprint for public services to the Commission for Public Service and Governance.<sup>3</sup> This recommended options for better horizontal collaboration and improving performance management frameworks.
- 2.3 Both of the above recommendations warrant consideration for local government in Wales for:
- Identifying areas where collaboration between local government and other service providers can be maximised and;
  - Identifying the appropriate measures of success for Local Government Reform.

## **3. Funding the Merger Process**

- 3.1 There will be a cost to mergers to be met by councils and the merger proposals (voluntary or forced) should also consider the cost implication and impact on reserves of merger between authorities. This means that there should be consideration of an affordability fit in the proposed new principal authorities, ensuring no one area is disadvantaged by inadequate resources.
- 3.2 Costs for the Welsh Government and for Local Government arising from the merger process are outlined in the Bill Summary document<sup>4</sup> and the Bill Explanatory Memorandum.<sup>5</sup> These costs do

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<sup>3</sup> CIPFA, [The Commission on Public Service Governance & Delivery: A Five Point Blueprint for Public Service Reform in Wales](#), September 2013

<sup>4</sup> National Assembly for Wales, <http://www.assembly.wales/Research%20Documents/15-009-Local%20Gov/15-009.pdf#search=Local%20Government%20%28Wales%29%20Bill> February 2015

not reflect the full costs associated with the eventual merger process for councils.

- 3.3 CIPFA has previously estimated these costs at between £160m to £268m<sup>6</sup> relating to people, property, systems and programme costs. Given the financial position of some councils and evidence<sup>7</sup> that some authorities may be over-relying on balancing their budgets by using reserves; we believe there is a strong case for the Welsh Government to consider financial support, either in the form of direct funding or through regulation allowing councils to mitigate the impact of merger costs.
- 3.4 In Northern Ireland for example, the local government reform arrangements include a significant funding package from the Northern Ireland Assembly amounting to £47.9m.<sup>8</sup> This covered key areas such as system convergence and rates harmonisation measures.
- 3.5 The Department of the Environment in Northern Ireland have also enabled, through regulation, the ability for councils to capitalise certain revenue costs for funding purposes, mitigating the impact on rate payers.

#### **4. Transaction Powers of Transition Committees and Shadow Authorities**

- 4.1 The proposed legislation provides details on the functions of transition committees as well as provisions relating to restrictions on transactions by merging authorities whereby they need to seek the approval of the respective transition committee or shadow authority.<sup>9</sup>
- 4.2 It is unclear in the proposed legislation what transaction abilities the transition committee or shadow authorities have in their own right.

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<sup>5</sup> National Assembly for Wales, Local Government (Wales) Bill – Explanatory Memorandum, Part 2, January 2014.

<sup>6</sup> CIPFA Report for the Welsh Local Government Association, Report on the Transitional Costs, Benefits and Risks of Local Government Reorganisation, November 2014

<sup>7</sup> Wales Audit Office, Meeting the Financial Challenges Facing Local Government in Wales, January 2014

<sup>8</sup> Department of the Environment Northern Ireland – who is funding local government reform?

[http://www.doeni.gov.uk/index/local\\_government/local\\_government\\_reform/reform\\_fags.htm#who\\_is\\_funding\\_local\\_government\\_reform?](http://www.doeni.gov.uk/index/local_government/local_government_reform/reform_fags.htm#who_is_funding_local_government_reform?)

<sup>9</sup> Local Government (Wales) Bill [as introduced] sections 7, 11 and 13.

This will be important from the point of view of setting the budget, planning staffing structures for the new principal authority prior to its establishment and to entering into other commitments for the new authority in advance.

- 4.3 CIPFA believes that in order to minimise any risks associated with these transition bodies entering into onerous arrangements or committing the New Principal Authority to large long-term future commitments, these powers should be addressed either through the legislation or through explicit reference in any merger regulations developed.

## **5. Performance Measures**

- 5.1 While not an issue for the proposed legislation, CIPFA would recommend that plans are established to identify the potential benefits from mergers, once agreed, and to set out indicative savings plans and targets. It will be important to firmly have in place overall objectives for this re-organisation, underpinned by achievable and fully costed plans.<sup>10</sup>
- 5.2 There is no doubt that Local Government in Wales is under increased financial pressure. The same is true for the public sector in Wales generally. Any savings identified should take into account the potential for collaborative arrangements outside of the Local Government Sector.
- 5.3 CIPFA has previously supported the adoption of a 'place based' model of horizontal collaboration.<sup>11</sup> The need to maintain fiscal sustainability in public services, taking account of the expected impact of demographic and other changes, suggests that this approach needs to be more widely embraced as a key step in supporting local priorities, national outcomes and best value for the taxpayer.
- 5.4 A number of agencies in English local government are working on transformational projects across different boundaries.<sup>12</sup> These may serve as examples of how a more place-based approach could operate in Wales.

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<sup>10</sup> Supported by the WLGA submission on the Reforming Local Government White Paper, October 2014

<sup>11</sup> CIPFA submission to [The Independent Budget Review](#) (April 2010)

<sup>12</sup> DCLG, [Can-do' councils leading transformation of local government](#), 2013

5.5 CIPFA would further propose the use of shares services approaches across the new Principal Authorities in the areas of Treasury Management and Capital Investment planning, Finance, IT and HR services. This can facilitate improved data and information as well as effective decision support and efficient use of resources.