

**INDEPENDENT COMMISSION ON LOCAL GOVERNMENT
FINANCE WALES: CITY OF CARDIFF COUNCIL RESPONSE**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM:5

**PORTFOLIO: CORPORATE SERVICES AND PERFORMANCE
(COUNCILLOR GRAHAM HINCHEY)**

Reason for this Report

1. To enable the Cabinet to consider and approve the Council's response to the Independent Commission on Local Government Finance Wales.

Background

2. An Independent Commission on Local Government Finance Wales has been established by the Welsh Local Government Association (WLGA) and the Chartered Institute for Public Finance and Accountancy (CIPFA), the professional body for public finance professionals. The Commission is seeking evidence on how an improved local government finance system could help to address the key economic and social challenges facing the country, at a time when the funding available for local public services is being significantly reduced (see Appendix 1).
3. It is tasked with making recommendations for the reform of local government finance, and with finding better ways of funding local services and promoting economic growth. The Commission's final recommendations will be presented to all of Wales' political parties in order to inform the next Welsh Government, and will help shape the debate on the future of local government in Wales.

Issues

4. In responding to the Commission, it is necessary first to understand the pressures facing public services in Cardiff and consider the emerging models for delivering economic growth and public service reform, and reforms to local government finance which could support these emerging approaches.

5. For Cardiff, there are clear issues associated with rapid population growth and an increase in demand for services at a time of public sector austerity.
6. Between 2002 and 2013, Cardiff's population grew by 13%. This is a bigger percentage increase in population than experienced by any of the English core cities. This growth trend is set to continue with a projected growth of 26% between 2013 and 2034 – an additional 91,500 people – making Cardiff the fastest growing UK City in percentage terms. Cardiff is not only the largest local authority in Wales; it has also experienced the largest population growth in Wales over the last 10 years and is projected to grow far faster than any other Welsh area over the next 10 years. This growth will put significant pressure on the city's physical and social infrastructure, and on its public services.
7. The City of Cardiff Council is facing a budget shortfall of over £115m over the next three years. This follows on from a budget reduction of approximately £103m over the last 5 years. Other public services such as the Cardiff & Vale University Health Board, South Wales Police and the third sector are also facing similar financial pressures.
8. The City of Cardiff Council's response to the Commission (Appendix 2) argues that Welsh Government, local government and public sector partners need to work together to develop responses which are sensitive to the complexities of place.
9. For supporting **economic growth**, this will mean pursuing a city-regional approach, aligning strategic planning and investments across the functional economic area. This approach is currently being developed as part of the City Deal process. The response proposes a series of fiscal and financial reforms which could, if implemented alongside this new model, support economic growth, including:
 - Greater local control over business rates.
 - The introduction of a portfolio of Tax Increment Finance (TIF) initiatives in the Cardiff Capital Region
 - Powers for local government to levy a Supplementary Business Rate to invest in major strategic infrastructure.
 - The introduction of new, small taxes controlled by local government.
10. The **reform of local public services** in the face of increasing demand and funding reductions will require public sector partners to consider how the totality of public resources can be deployed to best effect in a city or a neighbourhood, aligning local budgets and services over several years. This will require budgets that are pooled across local delivery partners, free of national ring-fence constraints and conflicting outcome measures. The Council's response proposes a series of potential fiscal and financial reforms including:
 - The transfer of all specific grants into the Revenue Support Grant (RSG) by Welsh Government to enable greater flexibility to

respond to reducing budgets, and support greater integration locally.

- Multi-year financial settlements to give greater stability in terms of resource planning, and support a move toward preventative services.
- All new burdens that arise as a result of changes in Welsh Government or UK Government policy to be fully funded.
- Reform to enable join up of funding and services locally to deliver better outcomes.
- Devolution of budget and greater local control of national funding programme – for example, the Communities First and Families First outcomes framework.
- Decisions on capital spend to be devolved to local partners, to enable a joined-up local asset management plan for public services to be developed and delivered.

11. Welsh Government set out in the 'Power to Local People' White Paper their aspiration **to renew local democracy**. The Council argues in its response to this White Paper that the best way to achieve this would be through devolving responsibilities and resources down to local authorities and communities, putting decision making in local hands and giving people a major say in how their taxes are spent on the issues that affect them. The Council's response to the Commission proposes a series of reforms which could support a vibrant local democracy including:

- The principles of local democracy to be respected in the setting of local taxation.
- Responsibility for Council Tax exemptions to be devolved to local authorities.
- Local Government to be able to set fees and charges for all discretionary services.
- The protection of Local Authorities' ability to undertake prudential borrowing.

12. The Council's Economy and Culture Scrutiny Committee is also currently undertaking a Task & Finish Inquiry to examine specifically the issue of Cardiff's National Non Domestic Rates (NNDR) allocation. The Committee is considering the current arrangements for business rate collection and redistribution in Wales and whether it is benefiting or impeding economic growth and the development of the city's economy. The recommendations arising from the Committee's work will be considered by the Cabinet in due course and, any further points in addition to the Council's response, as set out in Appendix 2, will be communicated to the Welsh Local Government Association, which provides the secretariat function to the Independent Commission on Local Government Finance Wales.

Reason for Recommendations

13. To enable Cabinet to consider and agree the Council's response to the Independent Commission on Local Government Finance Wales.

Financial Implications

14. The report sets out the background to the financial challenge facing the Council and other Local Authorities across Wales. Whilst there are no direct financial implications arising from this report and its associated appendices, Appendix 2 outlines a strategic financial direction for the medium and longer term.

Legal Implications

15. The Cabinet has authority to agree responses to consultation papers from the Welsh Government and all other bodies in respect of strategic policy matters, and accordingly has power to agree the Council's response to the Independent Commission on Local Government Finance.
16. There are no direct legal implications arising from the recommendations of this report.

RECOMMENDATIONS

The Cabinet is recommended to:

1. note the ongoing Economy and Culture Scrutiny Committee Task & Finish Inquiry into the issue of Cardiff's National Non Domestic Rates (NNDR) allocation; and
2. agree the Council's response to the Independent Commission on Local Government Finance Wales.

CHRISTINE SALTER

Corporate Director

15 January 2016

The following appendices are attached:

Appendix 1: Background Paper on the Independent Commission on Local Government Finance Wales

Appendix 2: Draft Council Response to the Independent Commission on Local Government Finance Wales

Independent Commission on Local Government Finance Wales – Background Paper

About the Commission

The Independent Commission on Local Government Finance Wales is tasked with making recommendations for the reform of local government finance, and with finding better ways of funding local services and promoting economic growth.

The Commission's final recommendations will be presented to all of Wales' political parties in order to inform the next Welsh Government, and will help shape the debate on the future of local government in Wales.

The Independent Commission was established by the Welsh Local Government Association (WLGA), the national voice of local government in Wales, and the Chartered Institute for Public Finance and Accountancy (CIPFA), the professional body for public finance professionals.

The Commission will explore how an improved local government finance system could help to address the key economic and social challenges facing the country, at a time when the funding available for local public services is being significantly reduced.

Membership of the Commission

- Professor Tony Travers – Chair
- Chris Hurst
- Professor George Boyne
- Gill Lewis
- Harry Thomas
- Lynn Pamment
- Simon Parker

Questions

1. What are the strengths and weaknesses of the existing system of local government finance in Wales?
2. Are the objectives of central funding to local government clear and consistent? Is the grant system in need of reform?
3. Is council tax fit for purpose? What reforms might be made, if any?
4. Is the non-domestic rate working well? What reforms might be made, if any?
5. How do reductions in council expenditure affect the sustainability and quality of services? Might different financing arrangements (not just additional resources) improve the outlook?
6. Are grant distribution mechanisms fit for purpose and what changes would be desirable?
7. Will the potential structural reorganisation affect the operation of the system? Would it provide an opportunity for a parallel financial reform?
8. Would you favour local government in Wales taking control of additional taxes? If so, which ones?
9. Should incentives for growth play a greater role in the funding system?
10. Are any reforms required to the system of capital expenditure determination and funding?
11. Are there issues relating to the finance of housing which adversely affect local government? If so, do you have suggestions for change?
12. Could fees and charges be used to a greater extent than at present?
13. Can the quality of management and accountability be strengthened by improved financing arrangements?

APPENDIX 2

Independent Commission on Local Government Finance Wales: The City of Cardiff Council Response

1. Introduction

In responding to the questions asked by the Independent Commission on Local Government Finance in Wales, this paper first considers the pressures facing public services in Wales and the emerging models for delivering economic growth and public service reform, before considering the reforms to local government finance which could support these approaches.

Reforming public services and securing economic growth in the face of cuts, and catalysing local democratic renewal, will require responses which are sensitive to the complexities of place.

For supporting economic growth, this will mean pursuing a city-regional approach, aligning strategic planning and investments across the functional economic area.

For public service reform this will mean a fundamental rethink about how public money is spent in a more effective way, asking how the totality of public resources can be deployed to best effect in a city or a neighbourhood, aligning local budgets and services over several years. This will require budgets that are multi-year and increasingly pooled across local delivery partners, free of national ring-fence constraints and conflicting outcome measures.

The City of Cardiff Council supports the further devolution of powers to the Welsh Government. But it's vital that the benefits of new powers do not just recreate a local version of an unresponsive centralised state. The Council believes that the Welsh Government needs to inventively use the powers they currently have, working with local partners to develop policies which meet the distinct needs of each part of Wales, whilst also recognising the capital city's role in powering the Welsh economy. Cardiff, Cardigan and Caernarfon are very different places and therefore need to be given the freedom to develop different responses, within an outcomes and funding framework set by the Welsh Government.

Developing these responses should not be dominated by a sterile debate about structures. Local government reorganisation can only ever be part of the solution. What is more, the challenges facing local services are immediate. Change to services is happening on the ground **now**. There are pressing demand and financial challenges facing all public services, and these cannot wait for – and in any case will not be solved by – Local Government Reorganisation.

The City of Cardiff Council recognises that local government cannot simply defend the institutional status quo at a local level while arguing for wholesale devolution and the transformation of powers from the centre. If local government is arguing for change, it too must be open to change and to creating the structures and institutions necessary to deliver. With the emerging city-regional approach to economic growth, and the integrated city-level governance and neighbourhood partnerships arrangements for reforming public services, strong foundations are already in place.

2. Delivering Economic Growth

2.1 Cities as drivers of growth

*'Cities are the economic motors of the country. In the UK, they cover just 9 per cent of its landmass but contain 54 per cent of the population and generate 60 per cent of its GVA with 53 per cent of all businesses and 72 per cent of all highly skilled workers. Sustaining cities requires a combination of investments to meet their social needs, help grow their economies and make them better places to live and work. We consider that civic leaders, working with local stakeholders, are much better positioned to get this right than Whitehall officials and ministers working in a number of separate and insufficiently coordinated departments. Better governance would be possible through deciding locally about priorities and helping to integrate investments. In the UK, cities need greater freedoms and tools to do this work; we consider these prerequisites for stronger economic growth.'*¹

Report after report has demonstrated that cities drive economic growth, and that cities with the greatest freedom to invest in infrastructure, skills, trade and innovation are the ones that perform best. Though there is a strong correlation between the levels of local financial control in cities and how competitive and productive they are, cities in the UK typically control only 5-7% of their total tax base – rising to 8%-9% with the devolution of business rates (**with our estimates putting Cardiff at the lower end of this scale; near 5%**). In Canada 10 times this amount is controlled locally or regionally, in the US it is 7.5 times greater, Germany 6 times and 5 times that amount across the OECD on average.

2.2 Cardiff as driver of Growth in Wales

Between 2002 and 2013, Cardiff's population grew by 13%. This is a bigger percentage increase in population than experienced by London or any of the English core cities. This growth trend is set to continue with a projected growth of 26% between 2013 and 2034 - an additional 91,500 people – making Cardiff the fastest growing UK City in percentage terms.

Cardiff is not only the largest local authority in Wales, it has also experienced the largest population growth in Wales over the last 10 years and is projected to grow far faster than any other Welsh area over the next 10 years.

This economic and population growth is good news – a successful city attracts people, particularly talented people.² However, it also brings challenges. Accommodating this growth will mean 41,100 new homes will need to be built and 40,000 new jobs created by 2026. New transport infrastructure and services – roads, buses, trains, cycle-routes – will also be needed to keep the city moving, particularly at peak times. Accommodating this population growth in an inclusive, sustainable manner, and doing so in a way which does not damage Cardiff's economic performance is a major long term challenge for the city, and given its importance for the Welsh economy, for Wales.

The capital city is the economic engine of the city-regional economy. Nearly 2 out of 3 net new jobs created in South East Wales over the last 10 years have been in Cardiff. Each day around 80,000 people – over a third of the city's 200,000 workforce – commute in to Cardiff from elsewhere in the Cardiff Capital Region. Similarly, the capital city hosts major events on behalf of the whole of Wales, and is the centre for culture and leisure for the city region's 1.4m population.

¹ Raising the Capital, (Travers, 2013).

² The Metropolitan Century, OECD (2014)

These additional capital city responsibilities come with additional costs, and for Cardiff to continue to play this important role on behalf of Wales this needs to be reflected in the funding settlement.

While the city is growing fast, and creating jobs, the wider Cardiff Capital Region is continuing to perform relatively poorly against UK and European average, leading to a 'productivity gap' which is amongst the largest of all UK core cities, and getting bigger.

- GVA per capita in the Cardiff Capital Region is only 76% of the UK average.
- This leads to an annual 'GVA gap' of £9.4bn against the UK average. The Total Welsh GVA is £46bn.
- Looking internationally, GVA per person in Munich is nearly double that of the Cardiff Capital Region.

For Cardiff to continue to succeed, its growth needs to be managed – and financed – in a sustainable and coherent manner, in the context of the Cardiff Capital Region.

Wales needs Cardiff to succeed. In turn, Cardiff needs to be an effective and outward looking capital city, powering Wales, providing opportunities, attracting people, tourists, students, businesses and investment in to the Capital Region.

2.3 A place-based, integrated approach to supporting economic growth

*'The fragmentation of a city's administration and the quality of its governance structure is directly related to its economic strength. Cities with fragmented governance structures tend to have lower levels of productivity; for a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity. This effect is mitigated by almost half by the existence of a governance body at the regional level.'*³

A tailored response at the sub-national level which reflects economic geographies is needed, not a single local authority approach or a one-size-fits-all approach for Wales. In South East Wales and the Swansea Bay area this means a city-regional approach. A different response will be required for North Wales and for mid and West Wales which reflects their own economic geographies, challenges and opportunities. Leaders in the Cardiff Capital Region are taking this agenda forward, having committed to aligning strategy, resources and delivery capacity at the city-regional level as part of a **City Deal** proposal.

These proposals include:

- **Strategic Infrastructure Planning, Investment and Commissioning:** Responsibility for long-term strategic infrastructure investment plan to direct infrastructure investment priorities, aligned to the Welsh, UK and European Infrastructure Investment Plans, setting out the costs of strategic investment options and matching them to resources available.
- **Transport.** Devolved and integrated long-term transport funds, with powers to deliver an improved, joined-up local transport offer, shaping local bus services, local rail policy and integrated smart ticketing.
- **Skills and jobs:** Locally tailored skills provision to meet the needs of business and get more people into the jobs they train for.
- **Business, trade and investment:** Fully, locally integrated business support, trade and investment budgets and services to simplify and get more return per pound of investment.

³ The Metropolitan Century, (OECD, 2015)

2.4 Fiscal and Funding Reform required to support the new model

In addition to pooling resources, the Capital Cardiff Region proposes to be inventive with the tools available to promote growth. There is a radical agenda of devolution of powers and responsibilities to metro areas emerging in England (and to a lesser extent, Scotland). However, even the most advanced ‘devo deal’ struck between Westminster and Greater Manchester does not deliver the powers already available through Welsh devolution.

“...even the most advanced ‘devo deal’ struck between Westminster and Greater Manchester does not deliver the powers already available through Welsh devolution”

For example, **reform of Business Rates**. The decision by the Welsh Government to place business rates policy within the Minister for Economy’s portfolio suggests that WG see it as a lever for achieving economic or business policy aims, not as simply a stable source of revenue for Welsh Government. Yet Welsh Government has adopted a ‘business as usual’ approach, with a recommendation for stability in the short and medium term and the potential for devolution and greater local retention only being considered following local government reorganisation. This could be over 5 years away. We believe localisation of business rates should be a priority area of fiscal reform. This reform would both incentivise local authorities to promote growth and provide additional revenues to help balance budgets. We believe that the Welsh Government should look again at this issue to ensure that Cardiff and the wider city-region are not left behind English cities.

Additional areas of consideration could include:

- The introduction of a portfolio of **Tax Increment Finance (TIF)** initiatives in the Cardiff Capital Region, overseen by Welsh Government.
- Powers to levy a **Supplementary Business Rate** to invest in major strategic infrastructure – for example the Cardiff Metro – in a similar way to the London Crossrail scheme (2p in the pound) and West Yorkshire should also be examined.
- Increased **Revenue Raising Capacity**, through the introduction of new, small taxes. Though the sums raised by these taxes are relatively small, they do unlock a revenue stream to service some borrowing costs and could include:
 - Tourist / Hotel tax
 - Recycling / Waste taxes
 - Local sales taxes

If introduced these should be fully devolved to local areas and should be considered a net addition to local budgets, and so should not be considered when assessing the revenue support grant.

2.5 Governance

City-regional governance for the Capital Cardiff Region will be required to deliver this approach, based on a real partnership between Welsh Government, local government and the private sector, along with clarity over roles and responsibilities. Building on the City Deal, a strategic, coherent, cross local authority boundary and cross- UK and Welsh government department approach to the Cardiff Capital Region is now needed.

3. Reforming Public Services

3.1 Austerity

The UK's fiscal position continues to present the greatest challenge for public services, with a likelihood that they will have to operate at 35% of GDP and stay there for the foreseeable future, with the greater reduction in spending (60%) are still to come.⁴ The funding gap in Wales has been estimated to be between £2.6bn and £4.6bn by 2025.⁵

The City of Cardiff Council has made over £120m in savings over the past 5 years, and is facing a budget shortfall of over £120m over the next three years. This situation is unprecedented and arguably unsustainable. Indeed, the demands upon the local state are so extreme that in many authorities just one service, adult and children's social care, is projected to swallow up the entire expenditure of some English local authorities within the next 10 years.

Paradoxically, whilst public spending has been cut severely for some services like local authorities the overall levels of Government funding has not gone down in any of the UK Core Cities during the last five years.⁶ This is happening because budget cuts to preventative services- many of which are delivered by local authorities- are leading to equivalent rises in public spending on crisis services, particularly for health and welfare.

3.2 Demand Pressures

Cardiff's rapid growth will put pressure on the city's social infrastructure and public services. A 25% increase in school age children will mean that we will need more schools and more teachers in Cardiff – indeed, the equivalent of 2 new primary schools per year are already being built in Cardiff. Similarly older people – particularly those over 85 years old whose numbers are expected to nearly double in Cardiff over the next 10 years - are far more likely to need health and care services to help them live independent lives.

“... over 60,000 people in Cardiff – more than the entire population of Merthyr – are amongst the 10% most deprived in Wales.”

Big cities, like Cardiff have big social challenges as well as big economies. The recently published Liveable City Report demonstrated clearly that the city faces substantial economic and social inclusion challenges. Unemployment levels, though low in comparison to Core Cities, are persistently higher than the all-Wales average. Crime rates are also persistently higher. Over a quarter of households in Cardiff – that's over 41,000 homes - are deemed to be living in poverty, whilst only two other local authorities in Wales have a higher percentage of people who are amongst the 10% most deprived in Wales. In effect, over 60,000 people in Cardiff – more than the entire population of Merthyr – are amongst the 10% most deprived in Wales.

3.3 The challenges of the current approach

The challenges facing many local communities, families and individuals are often complex and deeply entrenched, requiring multiple and simultaneous interventions across a range of issues – housing, training, employment, childcare. This demands a more effectively 'joined up' government which coordinates and integrates delivery at the local level.

⁴ Office of Budget Responsibility

⁵ (Mark Jeffs, WAO).

⁶ Unlocking the Power of Place, Core Cities (2015)

Yet too often top down 'vertical' funding arrangements deny the flexibility needed to work across departmental boundaries and effectively align services to meet local and individual need. Funding is already locked in, contracted and committed, and services already specified, with pre-determined targets and outputs, long before local partners are able to influence delivery.

Furthermore, the current siloed system of spending means that often there is a financial disincentive to invest in preventative activities. If, for example, a local authority has to spend more from its budget on preventative activities, but the savings accrue in other organisations such as health, the police or other government departments, then local authority budgets remain strained, providing poor incentive for change.

In addition, the obligation to budget year on year inhibits the ability to do integrated, local long term planning.

3.4 Towards place-based, integrated approach to public services

A place-based, integrated approach does not (necessarily) rely on more money, but on a fundamental rethink about how public money is spent in a more effective way, asking how the whole of public resources can be deployed to best effect in a region, city or a neighbourhood, aligning local budgets and services over several years.

This will require better local co-ordination of funding and services, focusing on people and place, wrapping services around individuals and families, and aligning local and national services, for example integrating health and social care. This will require a move towards multi-year budgets that are increasingly pooled across local delivery partners, free of national ring-fence constraints and conflicting outcome measures.

Local Authorities have a long history of partnership working between local government and other public sector agencies. Cardiff has been a pioneer in this area in Wales, having successfully delivered a Local Service Board and Neighbourhood Partnership model which has played a key role in targeting multi-agency intervention. This is recognised in the recent Local Government White Paper, with Cardiff's approach cited as a case study.

There has also been significant success in aligning resources at a neighbourhood level through the delivery of Welsh Government programmes such as Flying Start, Communities First and Families First. These programmes have demonstrated the benefits of addressing complex dependency through the ability to co-commission and pool budgets at the local level.

The City of Cardiff Council has also been consolidating local public services in Community Hubs. The goal is to respond to reducing budgets, protecting services through analysing and responding to (hyper) local demand, consolidating existing (fragmented) assets and services in one place and co-delivering services with local partners. A single location for local services also provides a much simpler means of accessing these services for local residents. For example, the Ely and Caerau Hub which opened in 2014 brought together library, into-work, housing and welfare advice in to one building, alongside a café and community spaces. The goal is for there to be at least one hub in each neighbourhood partnership area, tailored to the needs of that local area, based on needs analysis and consultation. There will not be a 'one size fits all' approach.

"... funding is already locked in, contracted and committed, whilst services are already specified through pre-determined targets and outputs, long before local partners are able to influence delivery.."

By adopting an integrated, place-based approach, local partners and agencies have been able to coordinate and concentrate their efforts, making sure the most disadvantaged and troubled neighbourhoods, families and individuals are receiving the right service, from the right people at the right time.

But we need to go further, faster – with these approaches the becoming the norm, rather than the exception. We need to expand our emerging approach to consider the whole spectrum of public investment going into, and assets which exist in, a ‘Neighbourhood Area’ and better align - or where possible wholly integrate - these to deliver more efficient, joined-up public services.

3.5 Purposeful Partnerships

The ‘Power to Local People’ White Paper and the Well-being of Future Generations Act, places emphasis on the importance of Public Service Boards in delivering a place-based, integrated approach. In order to do so, they must not become bureaucratic structures, but instead be purposeful partnerships, with partners identifying joint issues and common problems, agreeing outcomes, pooling inputs and resources, sharing systems, assessments and data and jointly commissioning services.

In return, Welsh Government should delegate budgets and responsibility for assets down to the Public Service Board to enable a joined-up, long-term strategy for public service delivery to be implemented. For example, local partners need freedom to join up funding and services locally to deliver better outcomes, including: Early Years; Complex Families; Frail Elderly; Offender Management; Worklessness and NEETS; and Health and Social Care integration.

Similarly, to consolidate public services all local partners need the ability to manage their physical assets in response to local needs. In particular, the Local Health Board should have devolved responsibility for capital spend.

To enable longer term planning and a shift to preventative services, this needs to take place in the context of multi-year budgets.

3.6 Fiscal and Funding Reform required to support the new model

Delivering the new model would require:

- The **transfer of all specific grants into the RSG** to enable greater flexibility to respond to reducing budgets, and support greater integration locally.
- **Multi-year financial settlements** to give greater stability in terms of resource planning, and support a move toward preventative services.
- All new burdens that arise as a result of changes in Welsh Government or UK Government Policy to be **fully funded**.
- **Freedom to join up funding and services locally** to deliver better outcomes, including: Early Years; Complex Families; Frail Elderly; Offender Management; Worklessness and NEETS; Asset management; and Health and Social Care integration.
- Devolution of budget and greater local control of national funding programme, for example the **Communities First** and **Families First** outcomes framework
- **Decisions on capital spend to be devolved to Public Service Board members**, to enable a joined-up local asset management plan for the public services to be developed and delivered.

4. Responsibility, Accountability, Democratic Renewal

4.1 Local power in local hands

Welsh Government set out in the 'Power to Local People' White Paper their aspiration to renew local democracy. Devolving responsibilities and resources down to local authorities and communities, putting decision making in local hands and giving people a major say in how their taxes are spent on the issues that affect them can be expected to support this aspiration. The White Paper proposal to explicitly rule out further devolution of powers or freedoms to local authorities until any structural reforms have been undertaken therefore runs contrary to the desire to renew and reinvigorate local democracy.

Equally, it is fair to say that voters will only endorse new powers and new possibilities of local governance if they come with greater transparency and accountability. If local government is arguing for change, it too must be open to change and to creating the structures and institutions necessary for delivery, transparency and accountability.

4.2 Council Tax

Council Tax was revalued in Wales in 2005 and revised bandings were agreed on a national basis which did not reflect regional variances in value for similar property types. As a result, even though the yield in Wales increased by only 0.5%, the yield in Cardiff went up by 6.5% or 13 times the Welsh average. This resulted in 86,000 households increasing in band; therefore, any change to the system in future should take into account regional variations as one size clearly does not fit all.

Local Authorities should also be given greater flexibility to vary or remove discounts and exemptions. The additional income generated should not be included in the Council Tax Base calculation as Local Authorities should be able to use any increase in yield to help fund services. An example of this is the single person discount, which is currently 25% and costs £15 million a year in Cardiff. A reduction to 20% would generate an additional £3 million in income each year.

Similarly, the exemption for student properties should be reviewed, with the responsibility for setting this devolved to the local authority.

4.3 Business Rates

As set out in section 2.4 localisation of business rates should be a priority area of fiscal reform. In England there is already a localisation scheme in place with local authorities retaining 50% of any increases in yield and there is now a firm commitment to 100% localisation by 2020.

Cardiff is a major contributor to the pool in excess of £70 million each year. Reform in this area would incentivise the city – and other local authorities – to both promote economic growth and provide additional revenues to help balance budgets.

Given the need to plan and promote economic growth at a city-regional level (as set out in section 2.3), alongside the need to mitigate against local competition and displacement between neighbouring local authorities, there is a case could also be made for the devolution of business rates to the city-regional level. The Cardiff Capital Region currently raises 52% of the total Welsh business rates and get 48% back in terms of share. In this scenario Cardiff's contribution is broadly balanced by the recipient authorities.

In addition to the reforms to Business Rates discussed earlier in this paper, we would argue that more local flexibility should be introduced in the level of the multiplier to give Local Government more control over the total yield. Consideration could be given to linking the percentage increase in the multiplier to that of Council Tax.

Business rates have become increasingly complex in recent years with the number of reliefs available increasing making the system more bureaucratic to administer and more complicated for business to understand. A good example of this is the Wales Retail Relief Scheme which was application only for 2014/15. Many businesses already in receipt of Small Business Rate Relief didn't realise that they could also claim this relief. This system should be simplified.

4.4 Flexibility and Resilience

One of the key weaknesses of the current system is that balance between the finance received by local authorities in the form of the Revenue Support Grant and other grants, and the ability for local authorities to raise finance locally.

In addition to the proposed changes to Council Tax and Business Rates there are opportunities to create a more diversified funding base for local authorities, thus enhancing resilience.

Newly devolved taxes including stamp duty and landfill could be treated like business rates, collected by local authorities, pooled centrally and then redistributed among local authorities according to a Welsh Government formula. That need not imply any overall increase in their funding if the Welsh Government reduced the revenue support grant accordingly but it would mean more local authority spending was financed by their own tax collection.

Local Government needs to be given the opportunity to raise additional taxation to help diversify its funding base, and ultimately pay for services. This would include the ability to create new, small taxes (see above), and the ability to set fees and charges for local services where appropriate.

The only bodies in Wales that currently have experience of tax collection and administration are local authorities. It therefore makes more sense to use that experience in collecting the smaller taxes to be devolved – landfill and stamp duty.

The value of income collected by Welsh Local Government is significantly higher than the estimated £200 million included in the new devolved taxes which the new Welsh Revenue Authority will be responsible for. Currently, Welsh Authorities collect £1,300 million in Council Tax and £895 million in business rates. Collection rates overall are also extremely high and there is an opportunity to learn from the experience of Local Government.

Fiscal Responsibilities

- **The principles of local democracy to be respected in the setting of local taxation.**
- Responsibility for **Council Tax exemptions** to be devolved to local authorities.
- Local Government to be able to **set fees and charges** for all discretionary services.
- Freedoms to introduce new local taxes subject to local consultation with affected stakeholders.
- The protection of Local Authorities' ability to undertake prudential borrowing and the availability of capitalisation directions.