

**LOCAL GOVERNMENT TASKFORCE
FINANCE SUB-GROUP**

**FINAL REPORT
JULY 2006**

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EXECUTIVE SUMMARY

Introduction

The aim of the Finance Sub-Group is to identify and consider options for the future financing arrangements for local government after the transfer of functions.

Overview of Current Financing Arrangements

- **Government Departments** – the main sources of funding for the government departments are: funding allocations from the Barnett Formula; regional rate revenue; and borrowing.
- **Local Government** – the main sources of funding for local government are: district rate revenue; general or equalisation grant; specific grants; and fees and charges.

Local Government Funding in Other Jurisdictions

Different revenue raising powers described include:

- Scotland - Local income tax
- England and Wales – National non-domestic rate
- England – Lyons inquiry
- Republic of Ireland – Business taxation
- Republic of Ireland – Plastic bag tax

Transferring Functions

The functions local government will be responsible for fall into two categories: functions transferring from government departments or NDPBs; and new functions.

Further work is required to determine the full extent of responsibility and cost of the functions for which local government will be responsible. There was strong support within the group for independent verification to provide assurance that appropriate levels of funding are being transferred. It was recognised that final decisions about the funding of services transferring to local government will be a matter for Ministers. However, it was the SDLP's view that this could create an imbalance ie the minister would have the final word on behalf of central government but there would be no counter balancing final word from local government. It was also the SDLP view that in practical terms the Minister will be advised by civil servants who may be perceived to have a conflict of interest as their primary concern is central government.

Implications of the New Rating System

Domestic properties are being revalued using capital (or market) valuations. This will redistribute the wealth between households and councils.

Further work is required to determine the ability of the new council areas to raise appropriate levels of rates income. The group considered that there should be some work undertaken with the Rate Collection Agency to provide the general public with greater clarity regarding the difference between regional and district elements of the rate bills.

Overall Levels of Local Taxation

The group agreed that at the point of change the rate burden should not increase, simply as a consequence of the new arrangements.

General Principles for Local Government Financing

General principles for financing local government were established in order to ensure that there is strong local government. These include: rate burden; accountability; equity; equality; flexibility; sufficient funding; transparency; borrowing requirement; and investment power.

Current Sources of Revenue

Under the current legislation there are two potential areas of funding for local government: Councils own revenue raising powers (including district rate revenue, fees/charges etc) and grants from government departments. It would be best to maintain local government raising the majority of its income through local taxation.

Options for Future Financing of Local Government

A number of potential options were considered including:

- Regional non-domestic rate and district domestic rate;
- District rate only;
- Regional rate only; and,
- Banded regional rate and discrete district rate.

However, the approach that best suits the general principles is to have local government raising the majority of its expenditure through its own revenue raising power.

The option of funding which best suits the general principles is where the district rate makes up the majority of the overall rate bill and where local government also receives grants for specific purposes and equalisation, as well as being able to have fees and charges and to borrow to fund capital expenditure.

However, further work must be completed:

- To calculate the cost of transferring functions – these costs can only be estimated at a broad level at present; there will need to be further more-detailed analysis of costs conducted nearer the date of transfer and this should incorporate analyses of costs at new council level, as well as at Northern Ireland level.
- To determine if enough revenue could be collected through the district rate;
- To determine how new equalisation grant arrangements might operate under the new structures of local government; and
- To determine how rates could be calculated to allow varying income from the domestic and non-domestic sectors.

Consideration of Financial Regulatory Framework

There are three stages to the current framework: legal requirements; regulatory requirements; and accounting requirements.

It was suggested that:

- Some aspects of the legislative requirements required review
- The surcharge regime should be retained but re-examined once a statutory Code of Conduct is introduced.
- The rights of objection are out of date given Freedom of Information legislation.

Legislation

The option identified does not significantly change the component parts of the current primary legislation, therefore the modifications required are

minimal. However, there are some aspects which would need to be updated.

Further Work Required

Further work is required in a number of more detailed areas, particularly regarding the financial implications of the transitional issues.

Introduction

1. The Local Government Taskforce was set up to produce proposals for modern and effective local government in the light of requirements of the Review of Public Administration (RPA) and other drivers for change. This Taskforce comprises of three levels:
 - i. **Political Panel** – the DoE Minister chairs this group. Political parties have nominated five representatives and the Northern Ireland Local Government Association (NILGA) has also nominated five councillors.
 - ii. **Working Group** – the DoE Permanent Secretary chairs this group. It will consider recommendations of a number of work streams that will be established.
 - iii. **Nine Work Streams** – finance, human resources, estate, governance checks / balances, community planning, capacity building, shared services, performance management, and the central / local government relationship.
2. The work of the Finance Sub-Group is to focus on the future financing arrangements for local government. The terms of reference are attached in Annex 1.

3. The group is comprised of councillors and political representatives; a district council chief executive; the chief local government auditor; district council finance officers; departmental financial representatives; and representatives from DoE (a list of sub-group members is given in Annex 2, and the minutes of the meetings are available on the website¹).

Overview of Current Financing Arrangements

4. There are two aspects to the current financial arrangements: government departmental arrangements (see Annex 3 for more information) and local government arrangements (see Annex 4 for more information).

Government Departments

5. Public expenditure in Northern Ireland is subject to two separate controls - the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DEL and AME together make up Total Managed Expenditure (TME).
6. DEL totals are fixed for a three-year period in National Spending Reviews (carried out by Treasury biennially). There are two main types:
 - i. Assigned - devolved administration have full discretion to determine where it is allocated; and

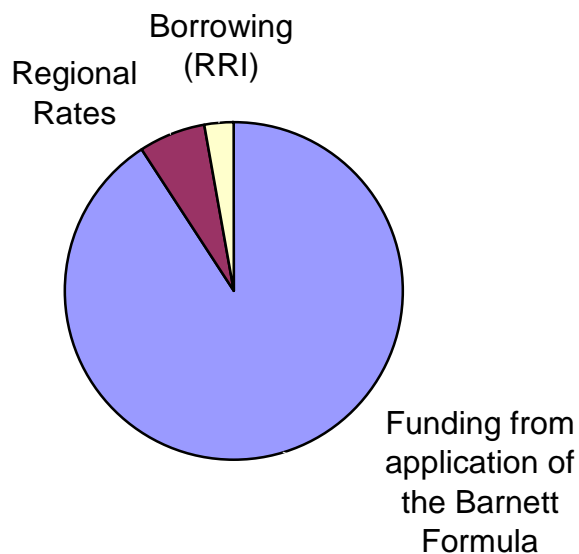
¹ Web address is: <http://www.doeni.gov.uk/lgd/localgovreform/>

- ii. Non-Assigned - spending on items where provision is not directly determined through the Barnett formula.
- 7. AME is controlled on an annual basis, based on updated forecasts. This is because AME is largely comprised of demand-led programmes (e.g. social security benefits), which cannot be reasonably subject to multi-year limits.
- 8. The main focus of the Budget process in Northern Ireland is on the DEL, in that the greater part of the DEL (known as the 'Assigned DEL') is subject to allocation at the discretion of the Northern Ireland Assembly and Executive (or the Secretary of State under direct rule), in accordance with local needs and priorities.
- 9. All allocations are made on the basis of a clear separation between **current expenditure** and **capital investment**. The former element reflects the ongoing cost of providing services (for example pay, operating costs, and grants to other bodies) whereas capital investment reflects the investment in assets, which will provide or underpin services in the longer-term (for example, in schools, hospitals, roads, etc).
- 10. The main source of funding for public expenditure within Northern Ireland is the block grant from the UK Exchequer, which is funded through the proceeds of general taxation across the UK. Changes in the level of funding for Northern Ireland from this source are determined via the application of the Barnett formula – in simple terms, Northern Ireland benefits from a population based share of

changes in funding for comparative spending programmes in England.

11. There are two main ways in which the gross spending power available to the Executive, or under direct rule the Secretary of State, can be increased (outside the nationally determined allocations which flow from the proceeds of general taxation). These are the **Regional Rate** and the **borrowing power within the Reinvestment and Reform Initiative (RRI)**. This is displayed in the following graph.

DEL Funding sources for the Northern Ireland Departments



12. As well as the additional resources available from the above, better use of the resources available to Northern Ireland is facilitated by the prudent use of an over-commitment assumption, and by delivering greater efficiency in public service delivery.

13. The budgetary process involves the Executive setting the strategic priorities and vision for Northern Ireland, which are approved by the Northern Ireland Assembly. Overall departmental budgets and Public Service Agreements (PSA) are determined as part of the Priorities and Budget process. PSAs set out the main objectives, outcomes, service delivery channels and targets that departments are working to deliver. These targets are monitored twice a year.

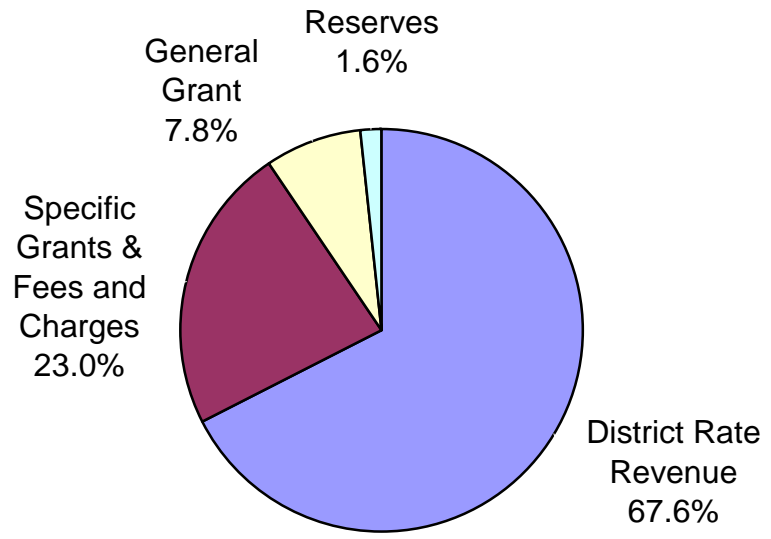
14. Resource allocations to individual departments are determined by the Executive and approved by the Northern Ireland Assembly. Departments then manage these budgets and priorities within the limits set by the Assembly under the annual Budget legislation.

Local Government

15. District Councils are currently funded from a number of sources including:
 - District Rate Revenue – from both domestic and non-domestic properties;
 - General Grant or Equalisation Grant, composed of two parts - the derating element (compensates councils for loss of income from derated properties) and the resources element (paid to councils whose need exceeds their wealth);
 - Specific Grants – paid from government departments, agencies or the European Union for a specific purpose; and
 - Fees and charges – for example entrance fees to leisure centres.

16. The majority of district council funding is from the district rate. Just over two-thirds of district council income is met through this revenue raising source, as shown on the following graph.

**Local Government Finance in Northern Ireland
Summary of General Estimates of Rates 2006-07**



17. District councils currently have the power (with the approval of DoE) to establish specific funds.

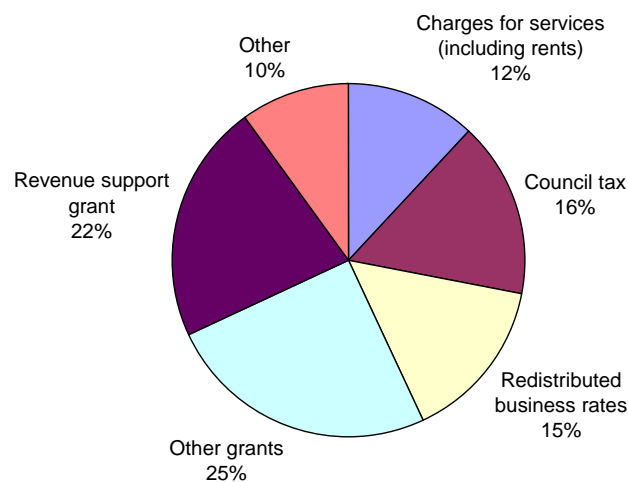
18. Councils also have the power to borrow but long-term borrowing must fulfil specific criteria and requires DoE approval. Loans may be obtained from the Consolidated Fund or from the local banks.

Local Government Funding in Other Jurisdictions

19. The size, functions and financing of local governments across Europe vary significantly. For example, the Czech Republic and France have the smallest local authority units, which are responsible for an average population of 1,600, whereas Ireland has local authority units with an average population of 44,900. The UK has the largest units of local authorities, with an average population of 135,700. However, these authorities vary significantly in size. For example, in England, Shropshire has a population of 283,173 and Kent's population is 1,329,718. In Scotland, Orkney has a population of 19,245 and Glasgow's population is 557,869. The proposed new council structure for Northern Ireland would see an estimated population range of between 190,347 – 282,750 per council area with an average council population of 243,233.
20. Other jurisdictions have alternative revenue raising powers such as:
- **Scotland – *Local Income Tax*** – The Scottish Executive have the power to increase or decrease the basic rate of income tax set by the UK Parliament by a maximum of 3p. This power has not been used and is not a local government power but a power for the Scottish Executive.
 - **England and Wales – *National Non-Domestic Rate*** – Local Government in England and Wales set council tax levels (domestic property tax), however the non-domestic rates are set nationally and distributed among the local government areas in the form of a grant. This means that nearly half of local government income is through grant, as shown on the following graph.

- **Republic of Ireland -Plastic Bag Tax** – In March of 2002, Republic of Ireland became the first country to introduce a plastic bag tax, or PlasTax². Local authorities are central to the enforcement of the levy on the ground, the revenues of which contribute to the Environment Fund, which is used for supporting waste management, litter control and other environmental initiatives.

Local Authority Gross Income by Source, England 2001-02



Lyons Inquiry in England - July 2004, the Government commissioned Sir Michael Lyons to undertake an independent inquiry to consider the case for changes to the present system of local government funding in England and make recommendations, including those on the reform of council tax³. His recommendations and findings relating to the future role, function and funding of local government will be published in December

² Exemptions from the tax include heavier weight reusable plastic bags; bags used for meat, fish, or poultry; bags for unpackaged produce, ice, or other foods without packaging.

³ See <http://www.lyonsinquiry.org.uk/>

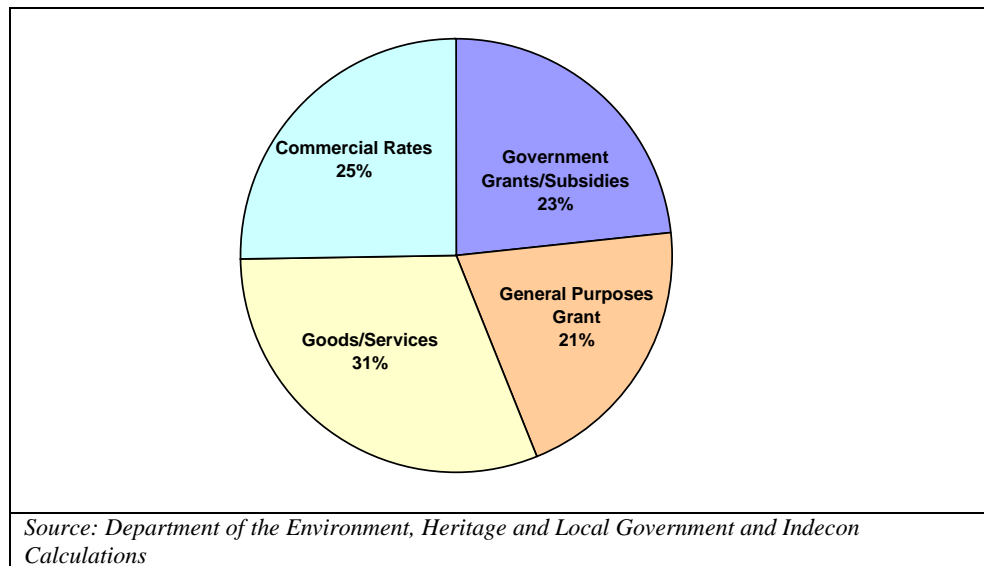
2006. Some of the results of these findings may have implications for Northern Ireland.

- **Republic of Ireland – *Business Taxation*** – Local government in Ireland is funded by a combination of central and local sources of funding, including local business taxation; charges for goods and services; and transfers from central government. Ireland is unique in that there is no separate local property taxation on individuals or domestic households.

Within the transfers from central government there are grants for specific activities and a general purpose grant from the Local Government Fund. The Local Government Fund is financed by an exchequer contribution and the proceeds from motor taxation. Local authorities also charge for a number of services they provide. These include charges to business owners for the provision of water services and charges to domestic households for refuse collection.

Since the abolition of domestic rates, commercial rates remain a key source of local authorities' own resources. The extent of the sources of funding are shown on the following graph.

Sources of Funding for Local Government Current Expenditure in Ireland - 2004



21. Some members of the group identified a local income tax as a potential revenue raising source for Northern Ireland. All members did not support this view and it was also recognised that a local income tax would be a matter for HM Treasury.

Work has been done in the Republic of Ireland to consider and compare examples of local government taxation systems and financing across various countries ie Italy, Germany, New Zealand, Australia, Canada and the UK. It was suggested that this research could be considered as part of the further work to be undertaken relating to financial arrangements in Northern Ireland, highlighted in Annex 8.

Transferring Functions

22. The functions transferring from government departments or NDPBs to local government as a result of the Review of Public Administration

are identified in Annex 5. The functions have been listed in two categories, as follows:

- those which are currently provided by government departments, such as conservation of natural and built heritage and some new functions which are not currently provided, such as community planning (all of which will require legislation) and
- others which would not require amendment to legislation.

23. The present estimate of the overall cost of the functions transferring is approximately £400 million per annum. This is the best estimate available currently, however further work will be necessary to refine the costs of these functions.

24. Concerns were raised at the group meetings that a more accurate assessment of the full extent of the cost of the transferring functions is not yet available. More work will be required nearer the time of the transfer to ensure that an accurate assessment can be made. Some members of the group expressed the view that local government should not be perceived as, or become, a local delivery agent for government departments.

Implications of New Rating System

25. The implementation of the Review of Rating Policy is nearing completion. This review has introduced a number of changes to the rating system.

26. A number of non-domestic changes have already been introduced including:
- Rating of unoccupied non-domestic property;
 - Phasing out of industrial derating;
 - Hardship relief;
 - Sport and Recreation; and,
 - Charitable exemptions and reliefs.
27. There are a range of non-domestic reliefs due to be introduced in 2007 to assist businesses in rural areas.
28. The domestic rating system, which will be based on capital (or market) valuations as at January 2005, will be effective from April 2007. This revaluation will redistribute the rate burden across households. In order to protect those whose bills increase significantly, a transitional relief scheme is being introduced.
29. In order to ensure that there is protection for persons on low income, just above housing benefit, a new relief scheme is being proposed.
30. The revaluation will redistribute wealth between district councils. The equalisation grant formula currently incorporates this measure of wealth and distributes funds on the basis of needs, in order to contribute to the shortfall. As these changes occur ahead of the transfer of functions, both aspects will be kept under review.
31. There is additional information on rating reform in Annex 6. Further work is required on the variation in rate bills across the regions and

on the ability of the new council areas to raise the appropriate levels of rating income.

32. It is proposed that revaluations will take place at least every five years, with the next domestic revaluation planned for 2012. The frequency of revaluations may subsequently be reduced in order to ensure that those living in areas with lower house price growth are not disadvantaged.
33. Concerns were raised during the meetings that the public did not distinguish between the regional and district elements of their rate bills. Further work should be undertaken with the Rate Collection Agency (RCA) to help distinguish between the regional and district elements of the rate bills to provide greater clarity for the general public. One suggestion was renaming the regional rate to the Northern Ireland Assembly Rate, but not all members of the group were in favour of this. Another suggestion was to separate the rates, with a view to making a clearer distinction between the regional and district rates. However, it was recognised that this would become a lesser issue if the percentage of rates, for which the new district councils have responsibility, increase substantially.

Overall Levels of Local Taxation

34. An important issue considered by the sub-group was the implication of RPA on the existing rating burden. While it is accepted that the longer term impact is uncertain, and subject to a number of variables, the sub-group concluded that any cost and revenue transfers between government departments and local government must be

done in the context of the basic principle that, at the point of change, the overall rate burden (ie regional and district rates combined) should not increase as a direct consequence of the new arrangements.

General Principles for Local Government Financing

35. When investigating the future financing of local government in the long term, a number of general principles for funding local government in the steady state were agreed.

36. The general principles for local government were identified as:

- **Rate Burden** – transition to the new arrangements should not in itself create an increased overall rate burden;
- **Accountability** – funding system should provide for accountability to the ratepayer via elected representatives;
- **Equity** – a mechanism should exist to address significant variations in revenue raising powers relative to need in different areas;
- **Equality** – how finance can be used to implement statutory equality requirements and tackle disadvantage on the basis of objective need;
- **Flexibility** – Councils able to prioritise their spending towards local areas of need;

- ***Sufficient Funding*** – the extra costs being transferred to local government are matched by the transfer of an appropriate level of revenue raising capacity or the receipt of appropriate levels of grant (either for specific or general purposes) – it was suggested by some on the group that this should be completed by independent verification to provide assurance that the appropriate levels of funding are being transferred;
- ***Transparency*** – the system must be easily understood in order for accountability to be achieved;
- ***Borrowing Requirement*** – Councils should have the ability to borrow;
- ***Investment Power*** – have the ability to invest.

Current Sources of Revenue

37. Under current legislation there are two potential areas of funding for local government, they are:

- Council's own revenue raising powers, through the rates system, fees and charges; and
- Grants from departments either for general or specific purposes.

38. The group considered that the approach which best suits the general principles and ideals is to have local government raising the majority of its income through local taxation, as this fulfils the general principles for financing local government. However, there would remain a need for some grants to continue under such an option.

Options for Future Financing of Local Government

39. In the context of the above general principles a number of options exist, building on the existing regional and district rates, the only available revenue raising source.

40. Options such as:

- **Regional Non-Domestic Rate and District Domestic Rate** – this follows the method currently applying in Great Britain where the non-domestic rate is set nationally and distributed on a per capita basis and the council tax is set by the local government;

Pros:

- The non-domestic rate is broadly in line with English non-domestic rate so this could be maintained.
- There may be a reduced need for an equalisation grant, as the distribution of the non-domestic rate revenue could aid equalisation.

Cons:

- The problem of gearing experienced by councils in England, where an increase in a council's budget of say 8% gives rise to a disproportionately large increase of 20% in the level of the local council tax due to the large amount of grant income.
- There would be a reduction in transparency and accountability of the rating system.
- If, as in England and Wales, the revenue is distributed on a per capita basis this may mean some councils may receive less than the amount raised from that area through the non-domestic rate.

- **District Rate Only** – where all of the rate revenue goes to local government;

Pros:

- The whole of the district rate would be accountable to locally elected representatives.

Cons:

- The Northern Ireland Assembly and Executive would lose the ability to raise any additional revenue for the purposes of the provision of regional public services.
 - There would be implications for the Executive's ability to borrow under the Reinvestment and Reform Initiative.
- **Regional Rate Only** – Councils would be funded via a grant mechanism.

Pros:

- There would be one tax rate across Northern Ireland.

Cons:

- There would be a large reduction in transparency, accountability and flexibility of the rating system.
 - This would require major transfers of grants, which would require some sort of calculation to distribute and may mean some regions receive less than was collected from that region.
- **Banded Regional Rate and Discrete District Rate** – this would mean that the regional and district rates would be raised on different bases in order to draw public attention to their difference.

Pros:

- There would be a more obvious difference between the regional and district rates.

Cons:

- This system may be confusing as there would be one bill but two separate bases.
- The review of rating policy investigated a banded approach and the Government has concluded that a discrete system is more equitable. Therefore, the new rating system will make no provision for a banded system to operate in Northern Ireland.

41. Members of the group considered these options not to sit well with the general principles, with the European Charter for Local Government, or with the requirement to have a regional revenue-raising power for the Executive and Northern Ireland Assembly.

42. To meet the general principles and with the current possible sources of funding, local government could be funded through the following option:

- ***Majority District Rate and Reduced Regional Rate*** – the majority of local government expenditure would be funded through revenue from the district rate with an equalisation grant; some specific grants; and fees and charges also available. The regional rate and associated departmental expenditure would reduce correspondingly to ensure that the tax burden does not change because of the transfer of responsibilities.

43. The advantages of this approach are that local government maintains its current ability to raise the majority of its income through rate revenues, which is in line with the European Charter for local government and should result in councils being responsible and accountable for local spending. However, this approach also maintains (although to a lesser degree) flexibility for the Executive to raise additional local revenues for investment in regional public services – health, education etc.

44. This option maintains the equalisation grant – this is a grant to help equalise between the councils in terms of their individual wealth base. The need for this grant may be more significant with a greater amount of revenue to be raised by councils. Further work is required around the equalisation grant formula and also the level of grant required. However the principle of councils receiving grant where needs exceed wealth is likely to remain.

45. Specific grants are also a feature of this option. Specific grants should be provided where local government is undertaking tasks on behalf of government departments but have a limited discretion over the expenditure. Again, further work will be required to determine which functions transferring to local government would be best provided for by specific grants. However, in order to ensure strong local government the group concluded that the use of specific grants should be used in cases of exception, with the majority of transferring functions being financed through increased access to rate revenue and fees/charges such as those raised through the planning function.

46. As the final cost of the functions transferring is not yet known, some members of the group noted that it is not yet possible to identify with certainty if there is sufficient revenue raised from the regional rate to cover the costs of the transferring functions. As mentioned previously the current estimate of the cost of the functions transferring to local government is approximately £400 million per annum.
47. The 2007-08 estimated revenue from the regional and district rates is as follows:

Table 1. 2007-08 Estimated Regional and District Rate Revenue

	£m
	Total Rate Revenue
Regional	544.0
District	420.2
Total	964.2

Note: This is based on trend increases in district rates.

48. Building on this, the general view of the group was that the best approach would be to fund councils via increased access to rate revenues. A consequence of this would be a reduction in the regional rate revenues (to ensure that there is no net increase in the rating burden as a result of the new system) but not to zero, to ensure the continued existence of a revenue raising power for the Executive and Northern Ireland Assembly. The need for specific grants and equalisation grant from government departments would continue. Depending on the financial cost of the services to be transferred, a

new grant (either for specific or non-specific purposes) may also be necessary. This is best illustrated by way of example.

49. There are two alternative scenarios:
 - a. Total cost of services to be transferred is less than the maximum possible reduction in regional rate⁴; and,
 - b. Total cost of services to be transferred exceeds the maximum possible reduction in regional rate.

50. The first scenario would mean that there is no need to have any new grant system to support a general shortfall in local government revenues. However, departmental funding for the services transferred would have to be reduced by the same amount as the regional rate revenue transferred.

51. Under the second scenario, the Executive would have to develop a grant arrangement for local government to cover the shortfall. It is not possible to add to the equalisation grant as this grant is not received by all councils and is for a different purpose. One option would be an unhypothecated grant (for general use) which would be in addition to the rates revenue. Another option would be the use of specific targeted funding to cover the shortfall. The costs of such grants and the regional rates revenue transferred to the new district rate would have to be offset by parallel reductions in the funding available to departments.

⁴ Maximum possible reduction is the amount by which the existing regional rate exceeds the desired minimum level post transfer. This amount would be a matter for the Executive / Minister

52. In both of the above scenarios the specific and equalisation grants from government departments would continue to exist. The need for and extent of, a new grant would depend on the value of the functions transferring in comparison to the level of revenue that can be raised. The figure-work currently suggests that an additional grant would not be necessary. However, further work and verification are required. Some members of the group expressed a view that the ability to raise enough revenue should be assessed at individual council level as well as at the Northern Ireland level.
53. Group members also commented that, under this arrangement, councils should be able to set rates for domestic and non-domestic properties independently of each other, to vary the balance of income between the sectors. This is an area, which will require further work.

Consideration of Financial Regulatory Framework

54. The current framework applying to local government finance can be summarised at three levels: legal requirements, regulatory requirements and accounting requirements.
- ***Legal Requirements*** – The primary statute which governs local government finance in Northern Ireland is the Local Government Act (Northern Ireland) 1972, updated by subsequent Orders and most recently by the Local Government (Northern Ireland) Order 2005. The 2005 Order updated the position regarding: local government auditors; audit; surcharge; and functions of the DoE as to accounts and audit. Article 24 of the Order states that the Department may make regulations with respect to the keeping of

accounts etc, as appears to the Department to be appropriate. The Department subsequently issued the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.

- **Regulatory Requirements** – In accordance with Article 4 of the Local Government (Accounts and Audit) Regulations, the chief financial officer of a local government body is required to prepare a statement of accounts in the form directed by the Department (the Department issues annually an “Accounts Direction”). The Direction also requires councils to comply with all relevant accounting and disclosure requirements.
- **Accounting Requirements** – Councils are obliged to comply with the “Statement of Recommended Practice – Local Authority Accounting in the United Kingdom”. This document, prepared by CIPFA, is updated annually to reflect changes to accounting practice. Additionally, councils are required to have regard to the Best Value Accounting Code of Practice (also issued by CIPFA and updated annually), where appropriate.
- **Review of Regulatory Framework** – Regulatory requirements and accounting requirements are reviewed annually and hence are kept up to date. However, some aspects of the legislative requirements are considerably out of date and require review. In particular, developments in GB have led to a greater degree of self-regulation exercised by councils, rather than external regulation by central government.

55. Currently, actions by a local government auditor can lead to recovery from members and officers, and members can be disqualified from membership for five years.
56. The 2005 Order brought audit powers into line with the Audit Commission Act 1998. However, since then the power regarding 'surcharge' has been dropped in England and Wales, the catalyst being the introduction of a compulsory Code of Conduct for Members that has a disciplinary aspect to its operation. A compulsory Code of Conduct has not yet been introduced in Northern Ireland but is under consideration by DoE.
57. There were mixed views amongst members as to whether the surcharge regime in Northern Ireland should be retained. It was agreed that this matter should be re-examined once a statutory Code of Conduct is introduced.
58. The rights of inspection and objection to the finances of local government, which currently exist in Northern Ireland, do not have a parallel in government departments nor in NDPB or Agency accounts. It is understood that there is a view at the Audit Commission that this right of inspection is out-dated in light of the Freedom of Information legislation, and that there may be consideration of the repeal of such rights in future legislative reviews.
59. In **Scotland**, an auditor finding matters concerning losses or expenditure considered to be unlawful reports such matters to the Accounts Commission. The Accounts Commission has powers to: report and make recommendations to audited bodies; hold hearings;

report and make recommendations to Scottish Executive Ministers; and take action against councillors or council officials if their negligence or misconduct leads to money being lost or breaks the law.

60. In **England**, auditors can still apply to the court where expenditure is considered unlawful. Auditors no longer certify sums due from officers or members with regard to loss situations but issue public interest reports. There is a statutory Code of Conduct for members in place, whereby the Standards Board have powers to hear complaints and to discipline members.

Legislation

61. A number of papers were prepared for the group meetings, which detailed the current local government legislation. DoE's Local Government Finance Related Legislation is attached at Annex 7(i); proposals for inclusion in the Local Government (Restructuring) (NI) Order 2007 is attached at Annex 7(ii); and a summary of 'Other' Government Departments' Local Government Legislation is attached at Annex 7(iii).
62. The option identified for the future financing of local government does not significantly change the component parts of the current system, therefore the modifications to primary legislation are minimal.
63. It was suggested that a general provision might be included in primary legislation, which would allow all government departments to make grants to local government for a specific purpose. Individual

departments could then introduce subordinate legislation under such a general power.

Future Work Required

64. There are a number of areas, which require further work and research in order to determine the financial and legislative implications. These are detailed in Annex 8, and are grouped into the two broad areas of general principles and transitional issues.

General Principles

65. These include:

- Legislation – proposals for inclusion in the Local Government (Restructuring) (NI) Order 2007
- Transfer of functions – funding mechanism and levels of provision
- Regional Rate – the amount of regional rate revenue which should be retained.
- District Rate – the setting of domestic and non-domestic district rates and the potential amount of rate revenue which could be raised in each area.
- Equalisation Grant – the variation in the rating burden, how the equalisation grant will be calculated and what size the equalisation grant should be.
- Specific Grants – which functions transferring should be funded through specific grants; for example will the Executive determine

minimum quality standards for certain services with funding implications.

- Financial Arrangements – sourcing best practice of local government finance in other countries

Transitional Issues

66. These include:

- Transfer of borrowing liabilities and reserves – how these will be dealt with.
- Transfer of liabilities and assets – the valuation of liabilities and assets
- Stamp duty and VAT issues.
- Transitional Arrangements – for example, funding of shadow councils; elections; staffing costs / redundancy costs; etc
- Differing accounting practices and financial management arrangements.
- Pensions – issues regarding staff transferring.
- Insurance – Insurance / self-insurance costs.

67. There also needs to be further work involved in evaluating the cost of providing the services being transferred, in order to ensure that the increased revenue from the district rate results in an adequate level of funding. It was suggested that there should be an independent verification of the budgets, if possible over 3 to 5 years and also staff requirements. The independent assessment on the spending patterns of the transferring functions would help to inform the decisions to be made by the Executive and Northern Ireland Assembly on the

allocation of revenue raising powers and resources transferring to local government.

68. Another area which members suggested updating, was regarding the management of outstanding NIHE loans, which should be transferred to NIHE.
69. Further consideration could be given to the future financial management and accounting systems in local government and the opportunities for use of shared service support arrangements.
70. The work of the other sub-groups and departments may have financial implications, which could impact on the outcome of this group. These may also require further work.