

LOCAL GOVERNMENT TASKFORCE WORKING GROUP
FINANCE SUB-GROUP

TERMS OF REFERENCE

Introduction

1. On 22 November 2005, the Secretary of State announced decisions relating to local government in Northern Ireland as part of the Review of Public Administration. A further announcement on the future of Quangos, and Executive Agencies within departments was made on 21 March 2006.

2. In consultation with Local Government the Department of the Environment has established a Local Government Taskforce, to develop plans for the introduction of new local government arrangements. The Taskforce will engage politicians strategically through a Political Panel, which along with the Working Group will provide oversight, cohesion and direction to the RPA implementation process. A number of work streams will be taken forward through nine sub groups, and many of the issues developed will feed into the new legislation being developed for local government. One of these sub groups will focus on future financing arrangements for local government.

New Financing Arrangements for Local Government

3. The RPA consultation document published in October 2003 highlighted the relationship and interaction between future arrangements and the functions of local government including its future financing arrangements. An extract from the consultation document is at Annex A. The key points made in it were:
 - (a) Public services in Northern Ireland (including those presently delivered by District Councils) are funded from general taxation, local revenue raised through the regional and district rates, and from fees and charges made for specific services.

- (b) Changes to the present arrangements for the control of and responsibility for public services will require a redistribution of these resources.
 - (c) These new financial arrangements will also need to take account of other developments and initiatives relevant to the planning, monitoring and control of public expenditure in Northern Ireland and, in particular, the Review of Rating Policy and the Reinvestment and Reform Initiative.
 - (d) A further key consideration in developing new arrangements will be the extent to which they can improve on the effectiveness, efficiency and economy of the current systems. This will help to ensure that the highest possible proportion of resources available is allocated directly in support of the delivery of services to the public.
4. The consultation document also referred to the implications of new arrangements for the allocation and distribution of resources, and for the flexibility of local decision makers to target resources to meet local circumstances. It also highlighted the potential for such flexibility to lead to variations in the standard of some public service delivery in different parts of NI.

Issues to be considered by the Finance Sub-Group

5. Taking account of the above, the Finance Sub Group will consider and report on the following issues:
- An overview of the present financing arrangements for those public services that are or will become the responsibility of the new district councils.
 - Consideration of the financial regulatory framework and examination of recent developments (including the Prudential Code for Borrowing) in other UK regions and in other countries.
 - An analysis of the implications of the new rating system for the present and future systems of financing public services delivered at district and regional levels.

- Identification and evaluation of options for financing the future responsibilities of district councils, to include options that would involve varying combinations of services supported by locally raised rates revenues and/or supported via grants from Government.
 - Consideration of the potential for the financing options available to lead to varying standards in the delivery of certain services at local level, due to local decisions on funding priorities.
 - Consideration of how delivery of equality in line with the statutory equality duty can be guaranteed.
 - An analysis of any future need for funding equalisation arrangements, in line with the statutory equality duty as between different district council areas and identification of possible models for such equalisation.
 - Consideration of the implications of the overall levels of local taxation for strategic public expenditure and public borrowing levels in NI.
6. The Sub Group will not consider or report on specific financial allocations for services that will become the responsibility of the new councils. These matters will be considered at a later stage within the framework of the new financing arrangements eventually adopted for local government, and the overall level of resources available to support the delivery of devolved public services.

Outcomes

7. The sub group will prepare a report by the end of June highlighting:
- (a) the key issues (including transitional issues) identified that will have an impact on future financing arrangements for local government;
 - (b) potential options for the future financing of local government;

- (c) the views registered about these issues and options including the areas where there was a broad consensus on the best way forward;
 - (d) existing statutory provisions that may be affected by the future financing arrangements of local government;
 - (e) matters which may require statutory provision to be made in the forthcoming Local Government Restructuring (NI) Order.
 - (f) proposals for how best to take forward further planning for and implementation of new finance arrangements for local government.
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**REVIEW OF PUBLIC ADMINISTRATION – CONSULTATION DOCUMENT
(OCTOBER 2003): EXTRACT**

Financing of Public Services

- 5.6 *The models must also be considered in the context of the arrangements by which public services are financed. Public services are funded from taxation, including the regional and district rates, and from fees and charges made for specific services. Any change to the current administrative arrangements as a result of the review will require a redistribution of these resources, and could involve very different arrangements for this allocation. The details of this can only be worked out at a later stage when a detailed proposal based on a specific model is being developed. New financial arrangements will also have to take account of other initiatives and, in particular, the Review of Rating Policy and the Reinvestment and Reform Initiative. Another consideration will be the efficiency and effectiveness characteristic in the terms of reference of the review which will mean that, in developing new arrangements, a key consideration will be the extent to which they can deliver savings on the cost of the current system.*
- 5.7 *Those models of public administration given later, which involve a structural change or the transfer of responsibilities, would raise significant issues in relation to the distribution of resources across Northern Ireland and could result in different patterns of activity in different areas. If functions were transferred to local authorities or sub regional bodies, resources would have to be provided to fund them. These resources could be provided as a single allocation in respect of a number of services, with flexibility to switch resources between them. Alternatively money could be earmarked for each separate service. While local flexibility would allow resources to be targeted to meet local circumstances, it could lead to variations across Northern Ireland in the standard of some services. The more substantial the range of responsibilities given to lower level bodies, the more complex the arrangements for resource distribution might have to be.*