

Implications for Scotland, Wales and Northern Ireland

INTRODUCTION

1 Most aspects of policy connected with local government and local government funding are devolved to the administrations in Scotland, Wales and Northern Ireland. However, there are a number of areas of the funding remit where there are potential implications for the devolved administrations, and I was explicitly asked to consider them in my original terms of reference. Reflecting this, I consulted with ministers, officials and other experts in all three countries, including through a constructive dialogue with Sir Peter Burt's independent Local Government Finance Review Committee in Scotland.

2 The most obvious issue that needs to be considered is whether any of my recommendations have consequences for the block grants of the devolved administrations because of the way in which that funding is calculated. In addition, it is also necessary to consider whether the devolved administrations already have the power to introduce similar reforms themselves, or whether the Government will need to consider their views and situations during the preparation of legislation.

BLOCK GRANT

3 My recommendations would not lead to significant changes in the short term in the source of local government revenues, and I do not suggest the creation of major new local taxes to replace government grant. Local authorities in England would continue to be funded through government grants (including redistributed business rates) and council tax, as they are now.

4 The lack of a major change to the balance of funding in England means that there will not be any substantial consequential change in the grant allocations for the devolved administrations calculated by the Barnett formula. In the future, possible decisions on more radical reforms to council tax, such as the introduction of a local income tax, might change this situation. A change in the balance of funding, with new local tax sources being offset by cuts in government grant, would lead to consequential reductions in block grants to the devolved administrations.

5 There are some more complex potential implications arising from my recommendations on business rates reliefs. My suggestions will make the system of reliefs in England somewhat less generous than they are at present. Any additional resources paid by English taxpayers through reductions in reliefs might be used either for reducing the tax rate, increasing spending, or reducing Revenue Support Grant to local authorities, and the Government will need to consider how those changes might feed through into the block grants of the devolved administrations.

BENEFIT SPENDING

6 Policy and spending on benefits is managed on a Great Britain-wide basis, so the changes to council tax benefit that I recommend will therefore affect individuals in Scotland and Wales, and the level of benefit spending in those countries. However, they will not affect the budgets of their devolved administrations. Council tax does not operate in Northern Ireland, but consideration may need to be given if there are any consequential implications for its benefits system.

LOCAL TAXATION

7 My recommendations will have no impact on council tax and rating policy in the devolved administrations for the time being. Decisions on council tax banding and revaluation are devolved matters on which Scotland and Wales have their own policies, and Northern Ireland has an entirely different system of local rates, which is currently undergoing substantial reform.

8 In the longer term, the Government might wish to consider more substantial changes to local domestic property taxation such as a point value property tax or a local income tax. Since I am not recommending that a local income tax be implemented in England in the short or medium term, it would be speculative to go any further into the possible implications for the devolved countries of a future local income tax. If the Government was attracted to a local income tax in future, it would need to consult the devolved administrations on any consequences for them of such a change. The Scottish Parliament has primary legislative power over local taxation issues. The National Assembly for Wales does not have the same powers. Under the current system, substantial changes to council tax or to local taxation more generally would therefore need to be dealt with on an England and Wales basis for the purposes of primary legislation.

9 The Scottish Executive manages Scottish business rates, revenues and reliefs, and the Scottish Parliament has the power to amend its legislation on business rates as part of its powers over local taxation. My recommendations for reforms to business rates will therefore not affect Scotland. Similarly, my recommendations have no direct read across to Northern Ireland because business rates are also devolved there.

10 In Wales, however, business rates are currently administered by the Welsh Assembly Government on the basis of joint England and Wales primary legislation, though the National Assembly for Wales has discretion over some of the reliefs as these are provided for in secondary legislation. The Government will therefore need to work with the Welsh Assembly on any legislation used to implement reform to business rates in England, and the possible implications for Wales, both in respect of changes to reliefs and to the ability of local authorities to set a local supplement on business rates.

ROLE AND FUNCTION

11 My recommendations on the structure and functions of local government relate only to England. However any primary legislation in this area would also potentially impact on Wales, and the Government will therefore need to discuss these issues further with the Welsh Assembly Government.