

Better (Local) Government

The loss of the Local Government Finance Bill to the snap election and its omission from the Queen's Speech offer an opportunity for a rethink and the broader discussion about local government that is now overdue.

It is becoming increasingly difficult to see any coherent vision from central, or for that matter local, government about the place of local authorities in delivering key public services: how they should be funded and how those responsibilities should be organised. The Better Government initiative has argued in the past for a compact between central and local government to codify and reinforce the relationships between the two, overseen by a Parliamentary Committee or, as some are now arguing, an independent body on the lines of the Office for Budget Responsibility.

The need for this discussion follows years in which much has changed in the relationship between the centre and local authorities. Many of the changes have added layers of complexity which limit the number of people who feel able to engage in the debate, yet there are some basic principles that are simpler to understand and are open to a broader discussion.

Local authorities have powers to provide many local services and since 2011 they have had a "general power of competence" to undertake a very wide range of activities in innovative ways if they choose to do so. However, they also have duties to provide services like adult social care and the provision of school places where their role is more as the local provider of national services. They have discretion over how the job is done but not whether to do it at all. To fund all these services local authorities draw on a mixture of Council tax income, fees and charges and government grants (general and specific).

The general grant used to be the largest element. It comprised the income from the national non-domestic (business) rate topped up by money from the taxes available to the Treasury which supplemented the regressive local Council Tax.

The grant was distributed so as to compensate for the variation in the spending needs of local authorities, driven by demographic and social differences, and for variation in the resources available to them driven by differences in the composition of their housing stock. The net result was intended to be that all local authorities could provide a broadly standard level of service by charging the same level of Council Tax. This *equalisation* was one keystone of the local finance system. The other was that variations in spending levels, either from choice or differences in efficiency, should be reflected in the level of the Council Tax, to promote local accountability.

This basic model, which followed earlier similar schemes, was introduced in 1990 with the Community Charge ("Poll Tax") and survived the latter's replacement with the Council Tax in 1993, but it is now much eroded.

Various reasons have been presented to justify the variation from the basic model in recent years:

- The sharpness of the accountability of the Council Tax could not be contained at local level; central rather than local government got much of the blame for increases. As a result, increases have been limited to 2% a year – unless a larger increase is agreed in a local referendum.
- The conversion of business rates from a locally variable tax to a nationally set one, collected locally but distributed centrally, has damaged the link between local

councils and local businesses, reducing the incentive for local authorities to promote economic growth or to engage with local businesses on service issues.

- Disputes about the assessment of spending needs have become sharper as the total provision for local services has been reduced and the amount of government grant has been reduced even more sharply.
- The success of some Departments in taking control of the allocation of funding for their local services, especially the Department for Education and the Home Office, following their long-term distrust of general grants.
- A view that local authorities should be more enterprising, raising money by direct charging of the users of services and by commercial ventures, on their own or in partnership with private companies.

The Local Government Finance Bill would have been the latest adjustment to the basic model. The centrepiece of that Bill was a proposal that local authorities should retain all the proceeds of business rates collected locally. This was strangely presented as a transfer of resources from central to local government, even though the proceeds of the business rates were already statutorily committed to funding local services.

Simply allowing local authorities to retain their own business rates, however, would produce very odd results. The rateable value per capita varies by a factor of about 10 between the richest and poorest local authorities. Council tax would go through the roof, or services through the floor, in Middlesbrough, while Westminster Council would be able to pay people to live in central London. So the Bill envisaged a system of “top ups and tariffs” in which Westminster would pay some of their business rates to the government who would send some of that to Middlesbrough to retain some balance in the system. Sound familiar?

The innovation here is not in the headline but in the detail. These adjustments would be calculated only every 5 years or so and the benefit of rateable value increases between periods would be retained by the local authorities. This, it is argued, would provide an incentive for councils to promote development and economic growth.

The Better Government Initiative does not focus on the merits of policies but on the quality of the processes which lead to them. For a change such as this we might have expected to see:

- a clear statement of the problem being addressed and of the desired outcomes;
- consideration of alternative approaches;
- some evidence of a link between economic growth and rateable value increases, including the impact, if any, of the incentive effect of the 50% rate retention regime already in place;
- evidence that local authorities are not already pursuing economic growth for other benefits that it brings;
- some exemplification of the dynamics of the new system: what would the impacts on local services be if it proves that some authorities find it easier to attract growth, perhaps on the back of government investment like Crossrail or HS2, or what would happen to an authority faced with long term decline in business activity for structural reasons;
- consideration of unintended consequences such as a reluctance to permit the conversion of business properties to other uses because of the revenue impacts for the council.

We are not aware that answers to any of these issues have been made public even if the work has been done. We do know of a study by the House of Commons Library showing no evidence of a link between economic growth and rateable value increases, perhaps because

modern growth is less dependent on property. A report by the NAO¹ has similarly drawn attention to the risks in what the government has proposed and gaps in the analysis presented so far.

On the basis of what is currently known these proposals, along with a separate exercise to re-estimate spending needs (the Fair Funding Formula), do preserve something of the equalisation principle, but it is a shadow of what went before and any clarity of the link between Council Tax increases and service standards now seems impossible.

Surprisingly, Local Government seems to welcome the proposals. This seems to be partly because it puts some sort of a floor under further grant reductions and partly because they hope for further reforms giving more local control over tax rates and exemptions. That may be wishful thinking. The early indications were that the Treasury had estimated that the amount raised by Business Rates and Council Tax in future will exceed the total planned for local spending and efforts were being made to identify further services which could be transferred to local authorities to absorb the slack!

Perhaps in the end it is the quantum of planned spending at the local level which is of the greatest concern for the future role and capability of local authorities in the provision of public services. On the current trajectory many local authorities are expecting that they will soon only have funding sufficient for their inescapable legal obligations. But if local discretionary spending is squeezed out completely to what extent do we still have local government, as opposed to local delivery agencies, at all?

In the short run, the financial pressures are promoting unplanned, or more charitably organic, restructuring of local authorities in an attempt to share costs and make efficiency savings. In this, as in much else, there is little sign that central government is offering any vision for the future shape of local government or guidelines on how change should be done.

So far as we know no local authorities are planning on using the powers in the Localism Act of 2011 to do anything which “any natural person” could do and get married as a short cut to a merger, but there is plenty of evidence that authorities are using the powers to create commercial vehicles to provide services to themselves, to invest in business ventures in their own areas and elsewhere, to generate funds to support services. A previous Conservative government went to some lengths to close municipal enterprises because of the risks of failure and unfair competition with the private sector. The Public Accounts Committee² in the last Parliament was already signalling concern about the extent of the risks being taken by cash-strapped authorities which they might not be able to manage.

It is time there was some discussion of what we want from local government in the future instead of the incremental isolated changes we have been experiencing and in which the Treasury has been too influential. They have shown themselves willing to cut local spending hard. It is easier to do and the blame for service failings can be deflected. However, with the concerns about social care for the elderly and other local services which emerged during the election there seem to be limits to how far this process can go.

The delay in the Local Government Finance Bill gives an opportunity to do the work which has not yet been done and seek a new settlement for local government which looks afresh at the level of local service provision and how it should be funded and organised as a comprehensible and stable system for the future.

¹ <https://www.nao.org.uk/wp-content/uploads/2017/03/Planning-for-100-local-retention-of-local-business-rates-Summary.pdf>

² <https://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublic/708/70802.htm>