Solace response to 'Public money, local choice' the interim report of the Independent Commission on Local Government Finance

Introduction

Solace welcomes this interim report, which is a powerful statement of the urgent case for reform. As it says, we have now got to the stage where 'The greatest risk is in doing nothing'. The report is welcome in setting out some of the real challenges and potential contradictions embedded in some of the commonly outlined policy suggestions made to encourage greater localism. Whether it is on the tensions between self-sufficiency and redistribution or equalisation and incentivisation – the report offers a clear summary of some of the critical questions we will need to answer if we are to make the current finance system fair and fit for the future.

To begin this discussion, we believe that some of the challenges outlined in the report point toward some fundamental principles we should work to when considering the shape of any such settlement. These principles should underpin our approach to some of the more specific, technical debates and provide overall policy coherence to achieving fiscal reform:

- **Maximise accountability of local political systems** – The finance system should be accountable, with clear political lines of responsibility for the raising, allocation and spending of public money. While there are difficult decisions to be made about questions of equalisation and redistribution, the system should seek to reflect a general standard of fairness and not penalise individual areas or places arbitrarily.
- **Remove barriers to integration** – Future reforms should create financial processes and systems which promote integration across public services. Our aspiration should be for increasing 'whole place' or 'community budgets' approaches to public service financing, incentivising and assisting horizontal service integration across local public services. Additionally the significant and critical relationship between the social care, public health and wider health system needs continued and greater focus at a whole system level
- **Establish independence and minimise the need for redistribution** – Reforms should promote the financial independence of individual local authorities, regions and sub-regional groupings & the whole local government sector itself. In particular, our ambition should be for a system which ringfences local taxation for local spending – making local government as a sector, if not individual local authorities, a fiscally autonomous layer of government
- **Promote subsidiarity and localism** – Powers should be exercised, and funding devolved to support these, at the lowest possible level. We need clarity about which services each tier of government should be responsible for delivering, with an expectation of devolution for a wide variety of services which are currently delivered nationally, and appropriate revenue-raising powers at each tier to support the delivery of these.
- **Balance buoyancy and variety** – Our taxation system should spread buoyancy and variety across the income streams of local and national bodies. The system must correct mismatches in buoyancy between tiers, and the overreliance on one tax within a sector.

KEY CHALLENGES RAISED BY THE REPORT

In the context of the wider set of principles offered above, we are happy to offer some reflections on the specific issues raised by the Committee in this report.

Self-sufficiency

We agree with the Commission's view that self-sufficiency of the local government sector is both a desirable and achievable goal. As the Commission notes, some degree of equalisation will continue to be needed in the short term across different authorities at both a regional and national level. However, our ambition should be to reduce regional disparities over time and for national redistribution to be unnecessary. Such redistribution decisions will always remain contentious. As such they will always need to retain clear democratic oversight and accountability.

In the short term, there will continue to be a role for national government in this space until regions are fiscally self-sustaining. Given the contentious nature of such decisions, we believe that while national redistribution continues to be necessary it must ultimately be politically accountable. However, we are open to the idea that such decisions should be made on the basis of strong advice from an independent arms-length organisation or representative body, which offers the potential of achieving a greater degree of consensus.

Equalisation and incentives

The tension outlined in the report between achieving a degree of equalisation, while also ensuring there are incentives for individual authorities to grow their tax base, is one which we acknowledge is very difficult.

The questions in the report are premised on the broad retention of the current system of funding local authorities. In the absence of more fundamental changes, keeping more locally raised taxes locally improves incentives to grow. Crucially, it also helps to build a relationship between councils and their local businesses which is currently weak in too many places.

Fundamentally we believe, as the Commission alludes to in its final question, that the way to break out of this tension is to separate the method of equalisation between areas from the general local government finance distribution system. For example, a small proportion (to be calculated, but say around 1-2%) of income tax could be ringfenced to provide a fund for equalisation between local authorities. Ringfencing a proportion of stamp duty would also achieve a similar goal. This approach would add some buoyancy to the local government revenue bucket while allowing local areas to keep much greater proportions of local taxation.

Council Tax

We believe it is important to retain the comparability of council tax across different parts of the country as a critical component of ensuring accountability. However, we recognise the serious flaws in the current council tax system. Our proposal to address this would seek to maintain the comparability the current system creates whilst allowing local authorities a greater degree of flexibility to reflect local variation. It would have three key components.

Firstly, we could move to a system of regular 5-10 yearly revaluations across the country. In between revaluations, indicative house prices could be uprated in line with house price inflation for the local area (at whatever geographical level best balances simplicity with accuracy). This would ensure indicative valuations for council tax purposes properly reflect price increases.

Secondly, we believe it is clear that we need further council tax bands at the top end. However, we do not believe councils should have the ability to choose these bands locally. National bands are crucial in allowing comparability across places and therefore aiding democratic accountability and transparency. They also offer significant benefits in terms of administrative simplicity.

Thirdly, local authorities could be set free to set council tax at whatever level they deem appropriate for any given band. In particular, national rules about the relative differences in the charges between bands could be removed (e.g. it could be made possible for Band D and E properties to vary, proportionately, by different amounts in different places). This would give local authorities a mechanism to recognise varied property markets across the country and more fairly raise the revenue they need for local services locally.

The current restrictions on council tax increases without a referendum, which effectively create a cap, should be removed.

Business Rates and Additional Revenue

We agree with the Commissions view that the business rate retention scheme is welcome, but is distorted by unnecessary complexity and is too limited to effectively incentivise economic growth. By seeking to decouple the method of equalisation between areas from the general local government finance distribution system it should theoretically be possible to allow councils to keep all local business rates. This would help build critical relationships between local authorities and the businesses in their area, encourage subsidiarity and promote the independence of Councils.

Similarly, local authorities in the UK are quite constrained by international standards in the range of additional revenue sources they have access to. Hotel taxes, specific taxes on night-time businesses or taxes for Business Improvement Districts (BIDs) or similar should all rightly be part of the local revenue mix if councils feel they are appropriate. Such taxes, provided they are raised transparently and through the democratic process, are legitimate and should only be capped and limited in extenuating circumstances. This promotes independence and local accountability.

In both cases, it is worth restating the limitations of these approaches. The example cited of the new Hitachi Factory in County Durham highlights some of the perverse results of the current system. Allowing local areas to keep a greater proportion of the revenue they raise would help to address such difficulties but they will never be wholly eliminated. This is why we remain convinced of the need for a spread of variety and buoyancy in the local government finance system.

Housing

Councils have a vital role to play in driving house building in their place, especially in areas with high anticipated demand for new homes. As the report recognises, 'the determination to marginalise local governments role in the provision of social housing' is now completely outdated. Restrictions on local government borrowing for investment in housing, or on local governments' ability to act as a registered social landlord should be lifted.

Local authorities should also hold the ability to vary the discount offered through 'Right to Buy' to recognise local circumstances. In some places, tenants are receiving large state subsidies to purchase a very scarce resource in high demand from many other citizens locally. Giving authorities the ability to vary the discount offered (including, in particular circumstances, offering no discount at all) would allow them to reflect these local variations.

Whole Place Budgets

Solace have produced reports on Children's Services, Health and Social Care & Economic Growth. In all of these, we have argued for 'whole place' budget approaches. These promote the principle of subsidiarity, bringing the funding and delivery of public services closer to those they affect and enabling places to take approaches which work best locally. They also encourage integration of services across local places by removing the financial barriers which can make this difficult to achieve. Supporting local areas to places to achieve integrated approaches across suitable economic and geographical footprints, with clear democratic accountability, is critical.

The significant and critical relationship between the social care, public health and the wider health system means that having reform in one at a strategic, tactical, or operational level affects the others in a whole system approach. This is as true therefore for funding regimes, which should be geared towards prevention and early intervention rather than dealing with the consequences of downstream effects of poor public health. A government which puts more or less money in the NHS must consider the gearing this funding has and the other impacts in public health and social care.

Financial planning

In the short term, we agree with many responses to the Commission that long-term budgets would ease local financial planning. Greater fiscal clarity enables local authorities to plan over several years, unblocking some barriers to early intervention and prevention spending and also incentivising more ambitious invest-to-save models.

However, our ambition should remain for national distribution of funding to local government to be diminished over time as local independence and regional redistribution take an ever more central role. In such an environment, the need for long term budget settlements is diminished as local authorities have greater fiscal independence and become less reliant on redistribution of any type.

BACKGROUND

Solace is the representative body for over 1200 Chief Executives and senior strategic managers working in the public sector in the UK. We are committed to promoting public sector excellence. We provide our members with opportunities for personal and professional development, and seek to influence debate around the future of public services to ensure that policy and legislation are informed by the experience and expertise of our members. Whilst the vast majority of Solace members work in local government we also have members in senior positions in health authorities, police and fire authorities and central government.