

10

A developmental approach

Summary

This chapter argues that a developmental approach to reform is required, in order to build relationships and trust, and increase public confidence in local government over time.

Changes in behaviours will be important for both central and local government, including:

- for local government, the recognition of the place-shaping role and a greater focus on engagement with citizens and being recognised as a champion of efficiency; and
- for central government, providing greater flexibility for local authorities and the space for local decisions on priorities, with a reduction in centrally determined and monitored targets.

The Government needs to take action in the short-term to ensure a more sustainable finance system, including:

- making council tax fairer through changes to council tax benefit, including increased take-up, and increasing local flexibility to manage pressures on council tax;
- a package of measures on business rates to promote economic prosperity, provide local flexibility and support improved relationships between local authorities and businesses;
- enabling local authorities to show clearly on council tax bills what proportion of national taxation is being used to support local services;
- other measures to support the place-shaping role.

Council tax should be retained as a local tax. In order to underpin its sustainability, the Government should conduct a revaluation of properties in the near future – with appropriate transitional protection – and introduce a process of regular revaluation for the future.

However, even a reformed council tax would still have some problems, such as lack of buoyancy. Over time, more radical reforms could be considered to take further pressure off council tax, to improve the fairness of the local taxation system and to further increase local flexibility and choice.

A proportion of income tax could be assigned to give local government access to a buoyant form of taxation, and in the longer term a local income tax would be a feasible option. Further reforms to business rates could also be considered, such as the full relocalisation of the business rate.

In order to reinforce and support this process of change central and local government should negotiate a contractual agreement which sets out what central government requires of local government, how it should be funded, and the ways in which central government should appropriately influence and control other aspects of local government activity. That agreement should be open to external and parliamentary scrutiny.

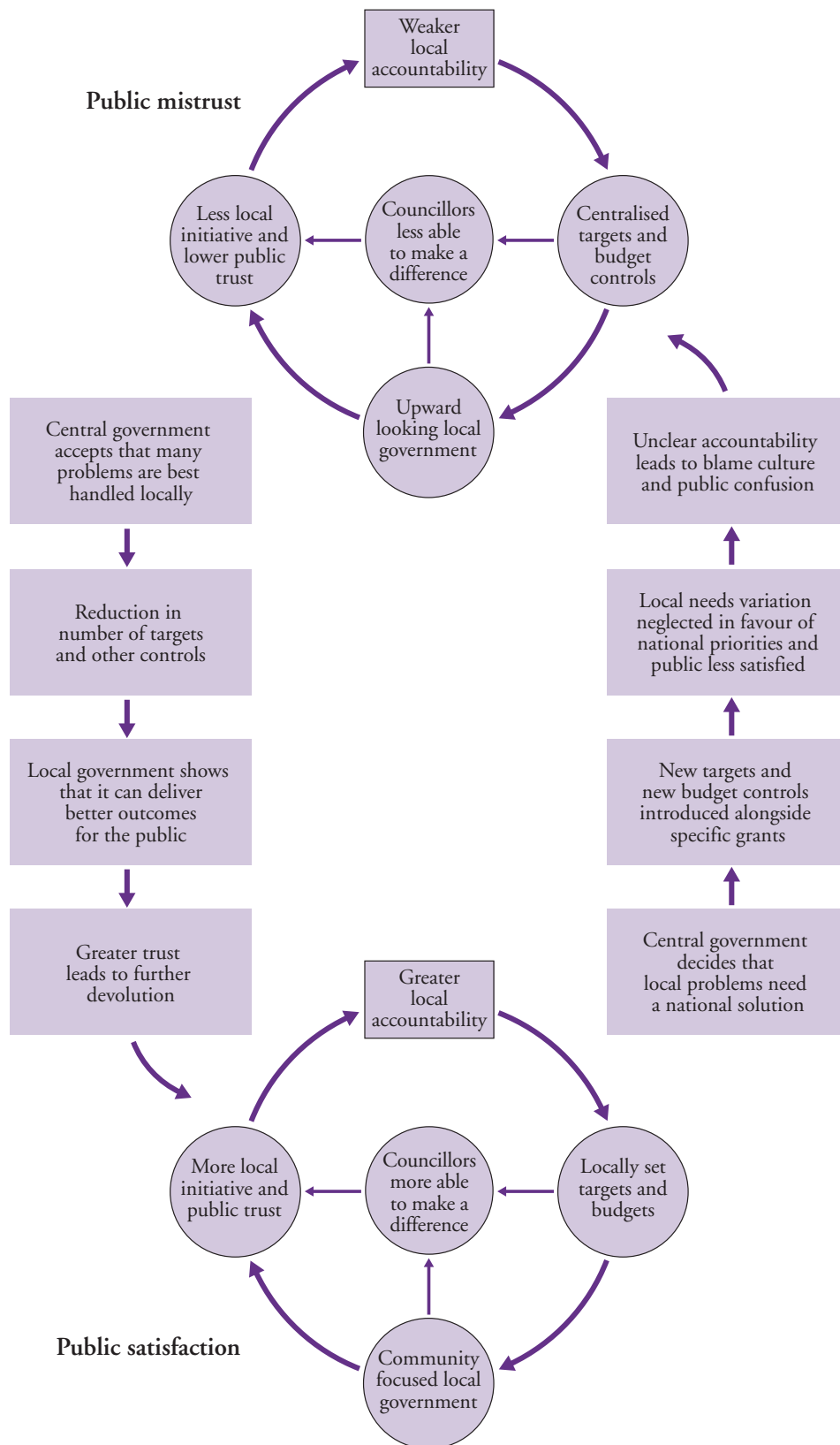
INTRODUCTION

10.1 Throughout this report I have sought to describe a vision of local government as part of a single system of government, playing a place-shaping role, engaging with citizens to build an understanding of their needs and preferences, and contributing to satisfaction and the efficient use of resources, by enabling collective choices to be made at the local level. To go back to the question that the Layfield Committee posed, I do believe that many of the decisions of government can and should be taken in different places, by people of diverse experience, associations, background and political persuasion. Enabling different communities to take governmental decisions and set priorities for themselves can contribute to a more effective overall system of government which is better able to tackle the difficult issues we face as a society.

10.2 Achieving this vision will take time. It requires not just the development of new relationships between local and central government, but a strengthening of public understanding of, trust in and support for local government (and indeed, to a significant extent, government in general). For some of the more radical possibilities discussed during the report to be feasible, a much greater level of public confidence in local government will be needed.

10.3 Reflecting this, I therefore want to set out an approach that is explicitly developmental – that acknowledges that trust and relationships need to be built, and seeks to use a wide-ranging but reasonably modest set of short term changes to create the space and the mutual understanding needed for wider reforms in the future. If the opportunity is seized by local and central government, I believe that there is the potential to create a virtuous circle, where increased local choice and accountability reinforce one another and create greater public trust and understanding. The unattractive alternative is further central prescription and a reduction in the scope for local accountability. Chart 10.1 shows a stylised version of these alternatives.

Chart 10.1: Moving towards a virtuous circle of local accountability and public trust



10.4 This chapter describes how my recommendations can provide this developmental approach, looking at:

- the behavioural changes that both central and local government can make in the short term, using opportunities such as the implementation of the White Paper and the associated Local Government and Public Involvement in Health Bill, and the forthcoming Comprehensive Spending Review;
- short term changes to the funding and legal powers of local authorities, and medium term measures to underpin a sustainable finance system, both for the Government to implement through legislation and other means;
- the longer term funding choices that future governments might face, subject to the successful implementation of these short term reforms and changes to behaviours; and
- how this process of developmental change might be supported and underpinned by a more formal agreement or constitutional settlement between local and central government.

CHANGING BEHAVIOURS

10.5 One of the conclusions that I have drawn from my work is that legal obstacles are not, in the main, the major hindrance to local government performing its place-shaping role. Whilst I have made a number of recommendations for substantive legal and policy changes for the Government to implement, more important is that local authorities develop a sense of powerfulness and capability to perform the place-shaping role, and change their behaviours to pursue those objectives.

10.6 The Government needs to support this process, by enabling greater local flexibility and more space for local choices to be made. To do so it will need not just to make changes to legislation, but also to its corporate behaviours, and those of individual departments. This should be to the advantage of both central and local government – our system of government as a whole will be most effective if the comparative advantages of its constituent parts are used to their full effect in addressing service challenges and difficult ‘wicked issues’.

10.7 All of these changes can be set in motion in the short term, though I do not pretend that they can be introduced instantly everywhere. It will take time for them to come to fruition as local authorities and government departments assess their own situation in the light of my recommendations and make the changes that are appropriate.

Local government 10.8 Local government can begin immediately to change its behaviours to enhance its ability to perform the place-shaping role, building on the steps that have already been taken. Some local authorities are further along the road than others, though all need to act, and the local government family has a collective responsibility to respond to the challenges and opportunities presented by this agenda. It is local authorities who must lead the process of enhancing public trust and understanding, demonstrating their ability to engage with citizens, to respond to their concerns and aspirations through managed difference, and to make full use of the potential of co-production.

10.9 Key issues that local authorities need to address include:

- taking the task of place-shaping seriously and focusing on the future of their communities, both the places and the people, in order to describe and agree a vision with the public and other partners and to use their powers to pursue it;
- developing the skills and confidence to convene and lead the activities of the local public sector, and to draw in the energy of the voluntary and business communities, through appropriate partnership and contractual arrangements;
- demonstrating the ability to work with other authorities across boundaries and between tiers in a way which delivers a better service to the public, and building relationships to address longer-term economic, social and environmental challenges;
- engaging effectively and closely with local citizens through a range of methods, including ensuring that the role of all councillors as frontline representatives and advocates is acknowledged and supported, and making use of co-production;
- acting as a champion of efficiency and value for money in the procurement and delivery of services and the use of assets; and
- taking responsibility for their own opportunities, challenges and problems and the means of solving those.

10.10 This change in attitudes and approach must come from within local authorities themselves. If local government is to be trusted by the public and accepted as an important and essential part of our overall system of government, then authorities must recognise their problems and the areas where they need to improve, and take their own steps to address them. The Local Government Association (LGA) and other parts of the local government family, such as the Improvement and Development Agency (IDeA), do however have a part to play. This has been on their agenda for the last few years, and the Best Review offers the opportunity for the LGA to take steps to further enhance its ability to promote improvement within local government. Other recent steps by the LGA, such as its new 'Raising our Game' campaign to challenge and assist local authorities to improve, are welcome.

Central government

10.11 There is much for the Government to do here as well, to improve the interface between local and central government and to ensure that both play their full part in addressing the key challenges both face. The positive direction set out in the Local Government White Paper and the developing experience of Local Area Agreements offers an encouraging start. In particular, central government departments – ministers, civil servants and their colleagues in the Government Offices – need to act to reduce the substantial levels of control, both hard controls such as ring-fencing and soft controls such as prescriptive guidance and monitoring requirements that have grown up over time. This will require focus and self-discipline to reduce targets and expectations and to ensure that new controls do not come into being to replace old ones. The Local Government Bill currently going through Parliament, and the work of the Lifting the Burdens taskforce, are both opportunities for developing this approach.

10.12 The Comprehensive Spending Review (CSR), later this year, offers a key opportunity to implement changes, and particularly to ensure a corporate approach across government to the necessary prioritisation and resourcing. The Government could use the CSR and subsequent discussions to:

- reduce targets and ensure a focus in those targets that are necessary on key issues of central priority, supported by appropriate resources;

- Set a clear and measurable target to reduce conditional, specific and ring-fenced grants; and
- work with local government to develop deliverable targets and priorities, with monitoring processes that do not pose undue burdens on authorities or on the front line, and also avoid soft controls where services and priorities are for local discretion.

LEGISLATIVE AND POLICY CHANGES

10.13 I have made recommendations for a number of changes to legislation and policy on finance and function issues which I recommend the Government should implement in the near future through changes to policy or, where necessary, through legislation. These are intended to:

- address problems in the system that preclude constructive debate and political space for wider changes;
- provide additional local flexibility and the ability to pursue the place-shaping role; and
- focus accountability for decisions clearly at the local level where that is appropriate.

10.14 There is no 'golden key', no single change that will meet all these objectives. Rather, a mosaic of changes is needed, and my recommendations are intended to form a single package, rather than a menu from which specific choices can be selected.

Council tax **10.15** It is my judgement that council tax is not broken, and should be retained as a local tax. Short-term reform is needed to deal with the immediate concerns about the pressure on, and fairness of, council tax. This will, in turn, help to create the space for a wider look at reform in the medium term – at the moment debate on council tax overwhelms any other discussion about the role and financing of local government. Improvements to council tax benefit must be pursued as a matter of urgency to improve the perceived fairness and sustainability of the council tax, by:

- more accurately reflecting the unique status of council tax benefit as an adjustment to households' liability for a single tax according to ability to pay, by re-naming it council tax rebate;
- substantially increasing the current low level of take-up by pursuing work on more automated delivery of benefit entitlement, with a view to achieving a step-change in take-up, particularly for pensioners; and
- increasing the savings limits for pensioners, and over time seeking to abolish them, aligning council tax rebate with Pension Credit.

10.16 There also remain a number of options, including the assignment of a fixed proportion of a national tax, or a local income tax, which could be used to help reduce pressure on council tax further over time. While these are not likely to be realistic in the immediate term, they have a number of advantages and remain possibilities for the future.

Capping **10.17** For local government to take responsibility for making local choices, and be held accountable for them, it must be clear which decisions are a local responsibility and which are a national. This is essential to the developmental process.

10.18 Council tax capping confuses accountability in the finance system by overlaying heavy central controls on a tax that is supposed to be a matter of local responsibility. Central government

has a right to expect careful use of public resources and judicious decisions on tax rates, as do the public, but I am not convinced that capping currently guarantees either. If the cause of high council tax increases is based in pressures on local public services and a lack of local flexibility to deal with them, the solution must lie in greater local flexibility to allow pressures to be managed and controlled. Thus, having made recommendations designed to provide greater local flexibility and space for local decisions, I recommend that central government should cease to use, and then abolish, its capping powers as pressures on council tax reduce. This will of course require some courage from the Government, but there could be no clearer and more fundamental sign that devolution is a key part of the agenda for the 21st century than this.

Transparency 10.19 Some of the pressures on local government come from central government requirements and expectations. If local authorities are to be held responsible for taxation decisions, it is important that the spending pressures and requirements placed on them are manageable. Reducing the scope of central requirements and expectations, and providing greater scope for local choice, will be an important contribution to that. In order to support that process and to provide greater transparency and challenge, I have also recommended that the Government should consider how it can enhance the amount and quality of independent information available on the requirements placed on local government, and the pressures on local services, in order to enable more effective public and Parliamentary scrutiny.

10.20 To aid transparency at the level of the citizen, I also recommend that councils should – supported by the Government relaxing restrictions on the layout of the bill – provide a clear statement on council tax bills which shows the level of support from nationally raised taxation they are receiving, and what that represents as a percentage of locally collected income tax.

Business rates 10.21 To make the place-shaping role a reality, local authorities need greater flexibility and space to act, and to build stronger relationships with the business community. Reforms to business rates need to contribute to this. There are already positive signs in this area, with support from businesses for the place-shaping role of local authorities and joint work between the CBI and LGA. However, I do not think that the time is right for substantial changes to the business rates system to be introduced. Local authorities and the business community still have to work on developing trust and shared objectives, and I am therefore concerned to avoid changes which could put the developing shared agenda at risk.

10.22 My short-term recommendations on the reform of business rates therefore include:

- retaining the current national system and Retail Price Index (RPI) cap;
- introducing the power for local authorities to levy a local supplement in order to increase local flexibility and support the continued investment in infrastructure that both businesses and local authorities have called for, subject to effective accountability; and
- reforms to business rates exemptions and reliefs, through reform of the Empty Property Relief and a wider review of reliefs and exemptions.

Incentives 10.23 Changes to the funding system can also help to connect local communities and authorities to the health and prosperity of their local economy. Incentives could both enhance the focus of authorities on the economic aspects of place-shaping, and enable those local communities who choose to support development and expansion to receive some of the financial benefits of those changes. I have recommended that these objectives be pursued through reforms to the Local Authority Business Growth Incentives (LABGI) scheme and a wider review of the grant system, where the current structure at present precludes the delivery of clear, transparent and long-term incentives.

Economic prosperity 10.24 Local government has an important role to play in fostering economic prosperity, and balancing it with the need for environmental sustainability. Much of what is needed here revolves around local authorities' own sense of powerfulness and place-shaping role, and their ability to build coalitions with neighbouring authorities and others. However, the Government can support this through:

- ensuring that the Sub-National Economic Development and Regeneration Review and the Comprehensive Spending Review, bring forward proposals for the devolution of resources and powers to local authorities working across sub-regional areas and with regional bodies; and
- implementing the measures it has proposed on the regulation of bus provision and on other issues related to planning and skills provision.

Revaluation 10.25 Council tax is currently based on property bands established in 1993 on the basis of property values in 1991. The lack of a revaluation makes the tax increasingly arbitrary and precludes most meaningful reform of the tax itself. Although it is not the most pressing priority, in order to provide the opportunity for reform, and to underpin the future sustainability of the tax, the Government should conduct a revaluation of properties in the near future – with appropriate transitional protection – and introduce a process of regular revaluation thereafter. At the time of the revaluation exercise I recommend that new bands should be introduced at the top and bottom of the distribution to begin to address the current weaknesses of council tax as a property tax.

Assignment 10.26 In the medium term, the Government should consider whether the assignment of a proportion of income tax revenues to local government, to replace current grant allocations, would have advantages. It might provide a better reflection of the fact that local services are funded from both national taxation and council tax, and help to develop a new relationship between central and local government, based on a change in mind-set in both local and central government. However, it would be a significant change, requiring central government to cede control over some elements of national taxation, and greater self-reliance on the part of local government.

OPTIONS FOR FUTURE GOVERNMENTS

10.27 The combination of changes to behaviours, and the implementation of a package of legislative and policy measures which provide greater flexibility, accountability and address fairness, should contribute to providing the space for a wider and more constructive debate. In the longer term, therefore, the success of these measures could give future governments the opportunity to consider possible further reforms to local government funding and taxation, should those seem desirable.

The basis of local taxation 10.28 One of the most important issues to consider will be whether the current basis of local taxation is the right one. Property taxes, of which the council tax is a form, certainly have a number of advantages. Future governments might wish to move towards a rather purer system where liability is more closely linked to the actual value of a property in order to make the local tax more effective as a property tax. An alternative option would be to introduce a local income tax to replace part of council tax or some proportion of grant.

10.29 Both of these approaches are technically possible at present, but my conclusion is that a combination of factors (particularly the length of time it would take to implement, and public ambivalence about the ideas) make them only a realistic option in the long term. Radical changes to taxation such as this require greater consensus than is currently in place.

Business taxation 10.30 Depending on the way in which the relationships between local government and the business community develops, future governments will wish to consider the best approach to business rates. The supplementary power I have recommended could be developed into a locally controlled tax through the possible future localisation of revenues, and increased local discretion over the rate (including the ability to lower as well as raise it).

10.31 There are also some good arguments for looking again at the business rates system once relationships have bedded in, particularly in terms of providing more effective incentives on local authorities to foster local economic activity and enhance the value of the local area.

UNDERPINNING THE DEVELOPMENTAL APPROACH

10.32 Beginning and maintaining a developmental approach relies on effective engagement between, and constructive behaviours from, both local and central government. I am confident that both will respond positively to this challenge, and there are structures already in place to support this, including amongst others:

- the machinery of the Central Local Partnership, and the Framework Document between the LGA and the Government which underpins that, enabling dialogue and debate about local and central priorities and issues of mutual interest;
- the signing and ratification of the European Charter of Local Self-Government;
- a considerable degree of transparency in the processes and data used to allocate the local government settlement between authorities, with strong engagement between local government officers and central government officials on technical issues;
- the work of the Audit Commission, aided by the Chartered Institute of Public Finance and Accountancy (CIPFA), in promoting debate about public services and encouraging the refinement of information for comparison;
- a substantial programme of rigorous research and evaluation commissioned by the department of Communities and Local Government into local government and local public services; and
- the development of innovative approaches to setting targets and allocating resources, such as Local Public Service Agreements and Local Area Agreements.

10.33 However, the changes we need to see, if local government is to play its full place-shaping role everywhere, will take some years to undertake. We therefore need to build relationships between local and central government for the long term, beyond the lifetime of any one government, and to cement the position of local government within a single system of government. It is not clear that current arrangements, and processes of debate and discussion, are sufficient to do that. In my May 2006 report, *National prosperity, local choice and civic engagement*, I suggested that some kind of formal agreement between central and local government might be needed, which would need to address the following issues:

- clarify roles and responsibilities;
- ensure central government expectations of local government are fully funded;
- ensure greater local flexibility and reinforce local government's convening role across local public services;
- formally recognise the place-shaping role of local government;

- enhance local accountability through reforming the role of councillors;
- reform the performance management framework; and
- provide a clear timetable for reform.

First steps 10.34 The first steps towards addressing these issues have already begun. The White Paper acknowledges the place-shaping role of local government and proposes a number of changes to the framework of expectations and targets on local government. If implemented successfully, these should enhance flexibility and strengthen the convening role. Local Area Agreements, particularly as the White Paper envisages they should be developed, also have an important part to play. Creating a clear single negotiation about the resources being provided to individual areas and local authorities, and the limited number of central government priorities that they are intended to deliver, alongside appropriate space for local discretion, will be an important step forward. The White Paper also sets out criteria for a new performance framework that, if implemented fully, will mark a real step change in the performance framework, providing a much more streamlined system of regulation which will provide much greater space for local flexibility and choice.

Contractual agreement 10.35 There remains a question as to whether a more formal arrangement between central and local government is needed to underpin these changes, to inform future policy development and to support scrutiny. There are profound behavioural changes being required of central government both by the White Paper and by my recommendations, which may need some external support and scrutiny to be delivered. A number of stakeholders, supported some kind of formal settlement, arguing for example that:

It would demonstrably improve local governance if there was a clear statement of purpose in the form of a written settlement between central and local government specifying the powers, responsibilities, duties and freedoms of the signatories. (Mayor of London)

10.36 I do think there should be greater clarity over what central government requires of local government and how that commitment should be funded, and a much clearer understanding of the appropriate extent of central government influence or control over other aspects of local government activity. Without a clear shared understanding of these fundamentals, we cannot hope to tackle the sense of confusion and mutual blame which characterises our system and undermines the public's trust in our institutions of government.

10.37 The definition of those objectives should, I believe, be agreed between central and local government, and reviewed transparently on a regular basis. The existing Central Local Partnership, which involves Government ministers and representatives of local authorities, could take on responsibility for agreeing those objectives. They should then be made public in the form of a contractual agreement, and should be clear enough to enable an independent assessment of how well they are being met. This needs to be supported by the improved provision of independent information, as mentioned earlier, to inform the public and Parliament about the cost of new burdens on local government and the pressures on local services.

10.38 These changes would ideally encourage a more mature approach to negotiations between central and local government, focusing on the outcomes desired from the system as a whole, to inform the hard decisions about spending priorities which follow.

Formal constitutional change 10.39 There are further steps that could be taken. In other countries formal constitutional or legal measures protecting the existence and the powers of local government form part of the basis of central-local relationships. For example, in Sweden the first article of the Instrument of

Government (part of the constitution) says that:

All public power in Sweden emanates from the people. The Swedish democracy is founded on freedom of opinion and on universal and equal suffrage and shall be realised through a representative and parliamentary polity and through local self-government ...¹

10.40 Whether such an approach is directly relevant to the UK's constitutional system can be debated, but a number of options have been proposed. For example, the Local Government Information Unit (LGIU) have called for legislative recognition of the position of local government in line with article two of the European Charter on Local Self Government. Others have suggested that Parliament be given a role in the process, for example through a parliamentary committee (as suggested by the House of Lords Select Committee on Relations between Central and Local Government in 1996), or as part of the wider process of House of Lords reform (recently suggested by the New Local Government Network and the LGIU).

10.41 I am not seeking to enshrine the constitutional position of local government in law. Laws and agreements do not necessarily create relationships, and the initial steps towards the developmental approach need to be given time to bed in. Nevertheless, I am attracted to a model which in time provides greater Parliamentary oversight, because of the contribution which that could make to developing and sustaining a wider consensus about the respective roles of central and local government.

Recommendation 10.1

Local and central government should pursue a developmental approach to reform, in order to develop relationships, trust and public confidence in government. This should be based on a new constitutional settlement between central and local government, which in time would enable greater scrutiny and parliamentary oversight. As short-term reforms take effect the Government should consider building on them to further increase local flexibility and choice and consider longer term and more radical reforms to the funding system.

CONCLUSION

10.42 There is no simple solution, no golden key, which will unlock the problems of local government or local government finance. These are profoundly complex and difficult issues which have their roots not only in legislation, but also in behaviours and deeply ingrained expectations on the part of local government, central government and the public they serve. Any reform will involve political trade-offs and widespread impact, and requires a strong case for change. I have sought throughout my work, and throughout this report, to take a sophisticated approach which recognises the genuine choices we have to make in developing and maintaining our systems of government.

10.43 The current system of local government, and the relationships that exist between citizens and their local authorities and between local and central government, has many strengths, but it is not sustainable. However, changing views, approaches and competences will take time. New political, professional and working relationships and alliances need to be built. That is why I have proposed a developmental approach, which gives time for those relationships to grow within a strong view of the necessity for, and the potential of, local government.

¹ Scottish Office Central Research Unit, *The Constitutional Status of Local Government in Other Countries*, 1998.