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13th March 2006

Dear Lee

London Borough of Barking and Dagenham's Response to the Lyons Inquiry

The London Borough of Barking and Dagenham welcomes the opportunity to respond to the Lyons Inquiry.

Summary of key issues:

The Council feels that the discussion around the strategic role of local government, and the implications for the development of this role, is of critical importance. The key issues that need to be resolved are as follows:

- Clarity needs to exist over the respective roles and responsibilities of central government, local government, and the range of agencies that exist within the sector;
- The whole system for funding of local government needs to be reviewed, (including consideration of the recommendations of the Barker Inquiry in respect of funding growth in the tax-base) as do a range of current local funding pressures such as the area cost adjustment, and the accuracy of population statistics; and
- The relationship between central government and local government needs to be further developed.

The strategic role of local government

1. What is the strategic role of local government? Is my description sufficient, or are there more elements you would add?

- Which elements of this role should extend to services other than those for which local government is directly responsible, and how?

- How does the strategic role vary between different types of councils?

The report accompanying this consultation begins by setting out the recent historical context of possible policy directions on the role of local government, explaining the balance between local and central accountability. This balance remains particularly valid today, with the government's agendas around 'localism' and 'sustainable communities'. Recent years have seen an ever increasing focus on the quality of locally delivered services; getting this balance right is key to successfully meeting the challenges that these agendas pose.

The report terms the strategic role of local government as one of "place-shaping", and it is helpful to explore this role in detail. The key themes, building local identity, representing the community, regulating disruptive behaviour, maintaining social cohesion, and understanding local needs demonstrate the role that local government plays in improving the lives of local residents. Local government is, of course, ideally placed to perform this role. Being directly accountable to local people, local government can understand the local perspective and work to meet the challenges of **promoting the welfare of local people**.

The themes also include working with other bodies, making sure the right services are provided and working to prioritise resources. These sorts of themes could be thought of in terms of a "**commissioning**" role. Again, with the local accountability that Councils can draw on, they are ideally placed to perform this role.

Barking and Dagenham Council is at the forefront of the development of the Thames Gateway, the successful regeneration of which is at the heart of the government's "sustainable communities" agenda. With such a broad range of interests involved, it is important to reiterate the role of the relevant London Boroughs in the strategic development of East London. This "**sub-regional**" role is vitally important, but is not referred to in the report. The success of sub-regional working, partnership arrangements and planning across boundaries is critical to development in a region such as the Thames Gateway.

The Council feels that the inquiry should consider the sub-regional role of local authorities in detail.

The report considers it important to reflect on the capability of local authorities to deliver successfully in the strategic role.

The Council strongly believes that the capability exists, but that sufficient resources should be allocated to building this capacity.

Clarity is also important in respect of the provision of services by local government, and in this respect there is a need to consider what the themes in the report *do not* include. While the delivery of public services is less of a strategic consideration, the clarity over responsibilities in this area has become increasingly blurred. With a wide range of bodies providing services to the public, central government's tendency towards specific grant and dedicated funding and increased involvement of new bodies in the sector, there is a danger that Councils will lose the ability to influence the performance of services.

The Council would urge the inquiry to clarify the role of local government in providing and commissioning local services.

2. What tools do councils need to perform the strategic role more effectively?

- What are the existing barriers to councils performing this role effectively?
- In what circumstances does it work well and less well?
- Are further improvements in performance, efficiency and accountability needed before local government can most effectively play this strategic role and be trusted to do so?
- What are the key signs of success and failure?

There are a range of barriers that exist that can prevent Councils from performing the strategic role effectively.

A range of barriers exist with the current financing arrangements that exist for local government. These are discussed in detail in section 6 and in Appendix A, but the key issues are as follows:

- Reform of the council tax and council tax benefit system;
- The future of business rates; and
- Fees and Charges.

Another barrier is the lack of clarity that exists between the local context and the national context – explaining to residents who is responsible for what, who provides what, who pays for what and so on. There are such a broad range of departments, agencies and other bodies delivering against sometimes conflicting agendas that these questions can be hard to answer. This not only detracts from local accountability, but also hinders the performance of services, which can sometimes lack a clear direction or driving force.

The Council would urge the inquiry to consider this, and ensure that the outcomes of the review are clearly explained to all stakeholders to address this.

Local government has shown that it can perform the strategic role. At Barking and Dagenham, we have developed a large range of partnership arrangements as part of the regeneration of the Thames Gateway, and also seen cross-sector working in the form of the Local Public Service Agreement (LPSA). The development of our Local Area Agreement (LAA) is further evidence of the progress being made in specific areas.

The success of the Audit Commission's Comprehensive Performance Assessment (CPA) demonstrates the improvements that have been made across local government in recent years.

There has been success across local government following the implementation of the Prudential Framework for Capital Investment in April 2004. This serves as further proof of the benefits of trusting local government with longer term, strategic planning.

The response to the Gershon efficiency agenda across local government has been strong, with Barking and Dagenham being one of many Councils that are exceeding the targets set by central government. The Gershon agenda has highlighted the strengths of local government, the ability to adapt, modernise and deliver continuous improvements to services. While the efficiency agenda is new, these capabilities that exist in local government have been around for a number of years.

The Council believes that local government has shown across a range of areas its effectiveness in strategic and financial planning, and that Councils should be trusted to play a strategic role in the future of public services.

Success and failure in terms of “outcomes” can be hard to measure in certain instances, but a key criterion is whether the Council’s services are providing value for money. This links the input of resources to the overall outcome, and encompasses economy, efficiency and effectiveness. If a Council is demonstrating improvements in value for money for its services, then it is succeeding.

3. How important is the fact that local government is elected in relation to its ability and legitimacy to perform this role?

The fact that local government is democratically representative of local residents is a vital part of its existence. It provides the link between people and the strategic thinking behind the resource allocation and service delivery in their neighbourhoods.

The role of a democratically elected body at a local level could help the development of services across areas local government is not involved in, for example the health service and in tertiary education.

The Council therefore believes that the fact that local government is elected is vitally important.

Devolution and decentralization – managing pressures on local services Scope for a new agreement

4. Which services (or parts of services) should meet national standards in all areas of the country? Which should meet minimum standards? Which should be entirely down to local choice?

- Are there aspects (such as standard setting, funding or choice of delivery mechanisms) of individual services which should be nationally controlled or locally controlled?
- Are there services where greater local variation in standards would be acceptable if there was clearer accountability and consultation with local people?

The Council feels that it is important for local government to be tasked with meeting nationally agreed priorities, rather than targets. The imposition of targets on local government can be done without consideration for local circumstances and is inflexible. It also undermines the strategic role in public services that the government would like to see local government perform.

We accept that there should be an agreement on the standards that local government should reach, however. We feel that it is important for local authorities to

have a role in determining these standards. This has been shown to work well, an example of such arrangements include the LPSAs and LAAs as mentioned above.

It is vital that local factors are taken into consideration. Factors such as deprivation, population migration and other socio-economic factors have a large bearing on the strains placed on local services. These factors should be taken into consideration when arriving at agreed priorities and standards.

The agreement of priorities will help local government to plan more strategically. Revisions in the local government finance system to enable greater predictability and control over finances will enable Councils to plan against these priorities in the longer term, which will improve overall outcomes.

In summary, the Council believes that standards and priorities should be set, but should be developed and agreed between central and local government specific to each authority's circumstances.

Where performance management is concerned, the Council supports the performance framework being developed jointly by the LGA and the IDEA.

5. How has the Government's approach to devolution and decentralisation affected your area and your local services?

- Which aspects of the current system are helpful and unhelpful, and why?
- Have changes based on central government priorities differed from those that might have been driven by local pressure and opinion?

The Council would like to highlight again the importance of clarity of roles and responsibilities when considering approaches to devolution. For example, London has seen the development of the Government Office for London (GoL) in recent years, and also the Greater London Authority (GLA). They sit alongside London Boroughs, while funding, targets, initiatives and suchlike flow between central government and these bodies. This leads to a lack of clarity and transparency.

The Council feels that the funding streams resulting from devolution should be rationalised.

The Council feels that the central government priorities have tended to link in with local government priorities.

6. How can pressures on local services be managed more effectively?

- What are the main types of pressures faced by local services and how are they currently managed?
- Which are the most difficult to manage and why?
- Would greater devolution of responsibility enable pressures to be managed more effectively?
- Do confusion about responsibility and duplication of effort contribute to pressures?

- Would greater public understanding of the actual cost of public services help to manage expectations and pressures?
- How can we ensure that the system provides the proper incentives and rewards for using resources efficiently?

The report covers a range of pressures that are valid. Particularly key are issues around demographics, greater pressure from local people for better services and pressures & responsibilities handed down from central government.

In certain instances, local government funding picks these pressures up, but often residual funding pressures remain. **Appendix A** to this response sets out detailed issues with the current local government finance system, and how it may be improved. A summary of some pertinent **funding issues** that affect Barking and Dagenham are included below:

- Barking and Dagenham experiences wage cost pressures 102% greater than the cost uplift (known as “**area cost adjustment**”) that it is allocated through the government grant mechanism. Essentially this means that the Council is not given sufficient funding to cover wage cost pressures and the result is that this shortfall has to be met through cuts in services.
- The current local government finance system is reliant on **population statistics** provided by the Office for National Statistics (ONS). The Council has grave concerns over the accuracy of the ONS figures, specifically in respect of migration figures they bear very little relationship to the figures available from GP registers, and results in severe cost pressures.
- Tied in with the point above is the ability of the funding regime to account for the cost pressures associated with a **growing population**. Over the next 10 years, the population in Barking and Dagenham is expected to grow significantly and this will lead to increased cost pressures. However, the funding mechanisms are slow to react, and this creates a funding lag.
- When considering the future of the funding of local government, the Council urges the Inquiry to implement the proposals in the Barker Inquiry which recommend that high growth areas should be able to **retain part or all of their additional revenue from their corresponding rise in tax-base** without an offsetting loss in grant.

Overall, the high degree of complexity surrounding the local government funding arrangements do not assist service planning, specifically around being able to draw together the priorities and service needs on the one hand, and the funding available on the other.

The Council believes that it is important to rethink how local government is funded.

7. How could responsibility for local services be made clearer between local government, central government and other agencies?

- What might this mean for the current performance management framework?

- Would a more contractual approach for a small number of key central priorities help to achieve this?

The Council believes that the considerations raised in the report are sensible. The need for greater clarity is clear (and expressed in this response). The proposals for a framework involving central government defining a smaller number of priorities, linked through to central Public Service Agreement targets to be negotiated with local authorities seems to be a sensible step in the right direction.

The Council believes a more contractual approach would also help to develop the relationships necessary between central and local levels to enable longer term planning and delivery of outcomes.

If you have any queries, regarding any aspect of this response, please do not hesitate to contact me.

Yours sincerely,

Joe Chesterton
Head of Corporate Finance

APPENDIX A

The Future of Local Government Finance

Part 2 of the report is titled local government funding. This draws out the key issues to emerge from the original Balance of Funding Review in 2004.

A number of questions were posed at that point, and these form a good basis to discuss the future of local government finance. These are set out below:

What are the most pressing issues affecting the present system of local government funding?

- The Council is concerned by the current trend towards central decision making and central allocation of funds, as it serves to weaken local accountability
- The Council feels that there is a lack of clarity between the centralisation of much of the decision making in the provision of local services which conflicts with the government's 'localism' and 'sustainable communities' agendas
- The Council feels that the government has made positive moves with the introduction of the prudential code for capital investment and the proposed move to three year settlements. These steps encourage Councils to plan more strategically and deliver real improvements to services, replacing systems of inherent uncertainty that was / still is counter productive
- The Council has concerns over the level of gearing that currently exists in local government funding, where a large proportion of local authority income comes from central government grant. However, the government needs to ensure that increasing the flexibilities of Councils to raise income is balanced by mechanisms that ensure that the most funding is directed to areas of the greatest need. Any new forms of local taxation or income generation need to be properly considered, transparent and easy to administer.

How might they be resolved, and what are the advantages and disadvantages of particular options?

The two key issues that are raised are the issue of gearing, and the issue of the erosion of local accountability. Both of these issues could be addressed by an increase in the ability of local government to raise tax or income themselves, rather than to be reliant on the central government grant. There are a number of options:

- *The re-localisation of non-domestic rates.*

This would provide local government with greater flexibility to raise income locally. It would address the issue of gearing that currently prevails, and would increase the local accountability for the provision of services.

However, care should be taken to ensure that such a change did not disadvantage certain areas. As an example, inner London boroughs have the ability to raise significantly more income from this than outer London boroughs. Such a system would need a counterweight, potentially similar to the London Rate Equalisation Scheme that existed prior to 1990.

Also relevant in this argument are the recommendations of the Barker Inquiry. One of the key recommendations was that high growth areas should be able to retain part or all of their additional revenue from their corresponding rise in tax-base without an offsetting loss in grant.

- *Assigned revenues from national taxation*

This would give local government an assured stream of income from national taxation, and would reduce the dependence on the grant regime, with its inherent uncertainty that stifles good planning and financial management.

However, there is no link between the decisions on local expenditure, and the ability to raise taxes. In this way, this option does not address the issue of the erosion of local accountability that has been raised in response to question 1b.

- *Local taxes on personal income*

The idea of a local income tax has been mooted in recent years, and was an official policy of the Liberal Democrat Party in the 2005 election. There are a number of advantages of such a tax. It would increase the accountability for local expenditure decisions; residents could clearly see the link between the provision of services and the taxes that they would pay. It would reduce the gearing issue, as less income would be needed from central government.

However, these positives would need to be weighed against the ability of such a tax to generate sufficient income for areas of significant deprivation. Inherently, areas with high deprivation will have a lower ability to generate income taxes, yet these are precisely the areas that the government should be targeting funding. As such, any move towards a local income tax should be introduced alongside a central government grant regime or tax redistribution mechanism that ensured the necessary investment continues to go to areas of highest need.

- *Local indirect taxes on expenditure*

There is potential for this type of tax to generate significant income, in the way that Value Added Tax currently does.

The principal drawback to such a tax for these purposes is that it will not draw a firm link between raising the tax from certain people, and provision of services to those people – as shopping is often done outside the boroughs where people live. Such a tax could also cause administrative difficulties and practical problems in respect of the relationships between businesses and Councils.

- *Low yielding revenue sources*

Such taxes that fall into this definition include congestion charging, tourist taxes and green taxes. Such taxes could be relevant in certain localities, but variations in congestion, tourism and other factors across the country do not make this option in itself viable in solving the issues that are under discussion.

- *Enabling local government to raise more income through fees and charges*

This is an area of potential income generation that could be very important in the future of local government funding. Many fees and charges remain tightly constrained by central government. Relaxing this central regulation could offer Councils the ability to set rates at locally agreed levels, which would increase the transparency for residents and users. This would also encourage local authorities to manage services in a more competitive way, which could improve the efficiency of service delivery.

Who would be affected and how?

Any moves to address the issues of eroding local accountability and gearing are likely to lead to a greater capacity to raise income locally, rather than be reliant on central government grant regimes.

The key areas likely to be adversely affected by such moves are areas of low income and high deprivation levels. Such areas require a disproportionate amount of funding compared to their ability to raise local taxes. Central government grant regimes should take care to address these issues of funding and deprivation.

Also of concern are areas of high population growth. There may be a significant lag between increases in the resident population, and an ability to raise local taxes. Such funding shortfalls would need to be met in central government grants.

How should council tax best be reformed?

There is a need to reform the council tax system. The current system is based on derived property values, rather than the ability of the individual to pay. As such, it discriminates against certain individuals. This is relevant not only to pensioners, but also to low income families.

Any proposals to carry out revaluation of properties for the current system would lead to severe turbulence in the effects across the country, and leave certain groups seriously disadvantaged. This is particularly relevant in London, where house prices have risen significantly higher than wages.

Alongside the review of the council tax system should be a review of the council tax benefits system. There are clear anomalies, such as the savings limit that reduces benefit eligibility that has not been changed for 15 years. There are also issues to address around the low take up of benefit in certain groups.

What is the case for providing local authorities with increased flexibility to raise a greater proportion of its funding locally, or additional revenue?

There is an overwhelming case to provide local authorities with increased flexibility to raise a greater proportion of its funding locally. These arguments are considered below:

- Moves towards enabling local government to raise more income locally would improve local accountability. Under the current system, there is no clear link between levels of Council Tax and the provision of local services. With increased revenue raised locally, residents would be able to make this link more easily. Indeed local councillors and officers would be held accountable for this link and be in a position to explain their expenditure decisions to local people, without having to explain that most of the decisions on funding are out of their control.
- Providing local authorities with increased flexibility over the raising of income locally would provide councillors and officers with greater control in the medium and longer term over the funding of local services. This in turn will encourage strategic thinking over the planning of services, and financial management. This thinking would not be hampered by the short term nature of central government grant regimes; by the same token Councils would not be able to hide behind the uncertainty of the current system in managing services and finances. Such improvements in financial planning and financial management have been clearly demonstrated by the introduction of the prudential framework for capital investment. Free from the annual controls and allocations of central government, Councils have been free to plan their capital investment over the full lives of capital assets and deliver benefits and outcomes that would have been unattainable under the previous system. Such benefits could translate into revenue expenditure and service planning if changes were made to the financing of local government.
- A reduction in the reliance of local government on the central government grant regime would provide significant incentive and motivation for local councillors and officers to take control of service delivery and financial management. Under the current system, the increased move towards more and more specific grant funding demonstrates the lack of trust shown in local government by central government; these messages are not healthy in an environment where the goal of both central and local government is the improvement of local services.

What combinations of options for future funding of local government would work best?

The Council is in favour of the reform of the Council Tax, reform of business rate distribution (implementing the recommendations of the Barker Inquiry) and extending the scope for Fees and Charges.

The reasons for this are that the Council feels that such moves would improve local accountability and enable improvements in planning and financial management to be realised across the whole of local government.

However, it is important that any changes are fully considered in the light of the ability of areas of high need to raise taxation, and the responsibility of the system as a whole to redistribute taxation income from areas of wealth to areas of high need.