



LONDON BOROUGH OF HAVERING

RESPONSE TO LYONS INQUIRY

1. Introduction

- 1.1 The London Borough of Havering welcomes this opportunity to contribute to this important inquiry. Local Government is likely to face major change over the coming years and the Council would wish to see those changes increase local control over services, secure a fair funding regime and encourage participation by all in local government. The Council firmly supports the proposition that more decisions should be taken locally and that councils should have the resources to meet local needs and be fully accountable for their delivery.
- 1.2 As a borough which has suffered from some of the worst national financial settlements in the country it is particularly keen to see a fairer funding regime introduced and would be interested in working more closely with the inquiry to provide evidence of the issues causing concern to Havering residents.

2. General Comments

- 2.1 There is little public understanding of the roles of local government and their costs, or of what Council Tax actually pays for. The current funding and recent changes and billing arrangements exacerbate the issue.
- 2.2 However, the proxies used for distribution do not reflect reality e.g. concessionary fares funding is allocated via the incapacity benefit and severe disablement allowance indicator and the elderly on income support indicator. However, in London, take-up of the Freedom Pass is not confined to disabled or lower income pensioners. Havering has one of the largest elderly populations and it is increasing. The scheme costs us £9m alone, which with a budget of £126m is a significant sum.

2.3 For grant purposes, as illustrated, we are perceived as being relatively affluent:

Authority	Mid-2006 Population Projections	Relative Needs Amount £000's	Relative Needs per Capita	Formula Grant £000's	Grant per Head
Havering	228,091	34,615	152	47,696	209
Barking and Dagenham	169,702	63,327	373	83,080	490
Redbridge	249,387	60,786	244	81,366	326
Newham	252,709	160,074	633	186,959	740
London Average	235,027	128,621	547	179,332	763
Outer London Average	239,648	71,336	298	84,492	353

2.4 The position is even more stark when comparing spend and Council Tax levels.

Authority	Band D Council Tax 2004-05	Spend per Head 2004-05	Band D Council Tax 2005-06	Spend per Head 2005-06
Havering	£1284	£1122	£1328	£1172
Barking & Dagenham	£1110	£1340	£1153	£1388
Redbridge	£1142	£1178	£1197	£1206
Waltham Forest	£1245	£1380	£1305	£1415
Newham	£1059	£1703	£1112	£1735

2.5 Generally, there are concerns that the use of key indicators fail to recognise that Havering has many of the same socio/economic issues of other boroughs. These include significant pockets of deprivation, a growing BME community and one of the oldest populations in London. The borough also has challenges relating to its size – the extensive roads network and the number of parks and open spaces that need to be maintained for example. Other pressures are generated by the regeneration activity necessary as London shifts eastwards and as a result of staffing and other costs.

2.6 Havering has the largest population of over 65s of any London borough and many residents provide unpaid care. Many of these elderly are on the cliff edge of benefits and are not therefore recognised in grant distribution. However, the Council still provides significant support to this sector, e.g. concessionary fares.

2.7 We recognise the value of a tax on property, however, we believe that:

- (a) Any new arrangement must be more clear what local services it pays for. There should be greater flexibility for local authorities to raise local resources through a mix of charging and taxation, based on local area characteristics.
- (b) Local business rates should be returned to local control with a mechanism for business to hold local government to account.

- (c) Inspection should be reduced on 'how' and limit it to the achievement of the quasi- contracted outcomes specified by the government in its funding agreement with local councils.

This is because the current arrangements blur accountability. Neither the public, nor those involved in public services, can clearly articulate who is responsible for what and how it is paid for. The gearing affect causes further problems.

- 2.8 Local Government, despite being accountable to customers, taxpayers, voters and other citizens, finds it difficult to address local priorities because of pressure to deliver national priorities.
- 2.9 ODPM has now formally withdrawn from stating any link between service spending plans and grant distribution. However, how can this be explained to the community and how can it be so given the level of national priorities imposed and the used of spend comparators in inspections?
- 2.10 The transfer of schools funding freezes current council tax contributions for the level of service. In Havering we raised extra council tax in order to fund schools above the government FSS guideline. This extra is still being paid for by local taxpayers after the transfer to national funding. This is not completely understood by schools or the general community.

Furthermore, it is likely that the government expects to bring schools to tend to the national formula. If the local council continues to believe the national formula is inadequate, it can top up spending by additional Council Tax. But in this position the Havering Council Taxpayer would be paying twice, as its initial top up has been locked into its baseline tax level.

- 2.11 The new DSG approach also sits ill with the requirement to create merged children's departments. From a budgetary perspective this now unites the most inflexible resource pool (schools) with the most volatile, demand-led and sensitive funding area – children's social services.
- 2.12 Tampering with council functions and funding can further distort the relationship between the Council Tax local people pay and the level of service they receive.
- 2.13 The allocation between central and local funding could be more closely shaped around the structure of service expectations, e.g. minimum standards and funded by grant and local discretion via Council Tax.
- 2.14 Local discretion over taxation or charging would have implications for Council Tax Benefit. Possible routes would be to base Benefit on a notional local tax level, or to abolish it and move to income supplements.
- 2.15 The relationship between central and local government's respective objectives, delivery and funding responsibilities needs to be better defined. Alongside this, local government should be given freedom over the means of delivery. Central Government contributes to the confusion of accountability by being prescriptive about how objectives are realised. Examples include:
- Performance measures, incorporated into inspection, that are really input measures, e.g. the percentage of people who live within a defined distance of static library ratios of older people in residential care.

- Inspection regimes focussing unduly on process, e.g., stock option appraisal rules specifying when councils need to seek tenants' views, traffic light systems required in budget monitoring.
- Using process targets as a means to change behaviours that principally succeed in grafting compliance on to existing processes (e.g. Annual Efficiency Statements) or in developing perverse incentives (e.g. GPs not taking appointments two days ahead).
- Using incentives to pilot change that can appear successful because they are relatively over-financed (e.g. Academy schools, Housing Allowance pilots). The results of the pilot study are therefore unreliable as an evidential guide to future policy, and the rollout funding has to be cut back.

2.16 As inspection arrangements have become more comprehensive and complex they are forced to become more mechanistic, judging local choices against national expectations. Identification of shared good practice in 'how' to do things is a matter of professionalism and peer improvement.

We believe:

- local government should have freedom over the means of delivery chosen;
- central government should focus on the ends, not the means, of service delivery in their concordats with local government;
- peer review and improvement processes within local government should be a principal means of sharing good practice and remedial support. The improvement agency should be accredited and rigorous, and draw on different sources of expertise. Both government departments and the Audit Commission should be able to refer failing services and authorities.

2.17 The sources of funding for local government must aim to:

- strengthen local accountability
- clarify "confusion of responsibility"
- resolve the balance of funding problem.

The cornerstone is to establish a clear link between local decisions on policy, service provision and quality, resource allocation and local taxation.

2.18 We understand the logic of the merits of Council Tax in terms of administration and collection performance, and the clear links between residency and the local bill, as described in the Lyons report.

Periodic revaluation is probably necessary to maintain the credibility of the Council Tax base, and we would prefer to see a regionally based system to address horizontal equity for taxpayers living in similar properties. We accept the findings of the interim report that rates of increase in property prices had tended to converge at the 2005 valuation date, but there is also clear evidence that they can be divergent at different points in time, often led by London and then rippling out. A decision taken now has to hold for other periods and a regional system could be more robust at different points of the cycle.

The significant funds that have been paid to pensioners alongside winter payments with an aim of supporting Council Tax bills should more visibly be built into Council Tax rebates (though non-taxpayers on benefit might continue to receive the full sum), deducted from bills at the outset.

- 2.19 We support the re-localisation of business rates. We believe this underpins councils' responsibilities for the economic growth and vitality of their area, and gives them a stake in local development.

The LAGBI scheme has been welcomed to an extent by local government because it establishes a precedent for councils to share in the tax yield generated locally, but the scheme itself is too complex and indirect. Because of the interaction with national totals, amounts raised are hard to predict and therefore to plan for, and the scheme itself is still time limited.

We also suggest that the Inquiry might consult on giving business a more direct local voice in council chambers through nominated representatives with voting rights. This assumes nominations would come from the local business ratepayer community.

- 2.20 The Lyons report has identified that precepting is a barrier to accountability and fosters confusion about different tiers of responsibility. We suggest that precepts should be issued as separate direct bills.

- 2.21 We conclude that the design principles of a new scheme should:

- Involve a clearer statement by central government of what control and outcomes it seeks through a 'shareholder' funding agreement for local services and other functions of local government.
- That funding sources should underpin the broader well being functions of local government, as well as service delivery, and that this should be reflected in the re-localisation of rates income, supported by an equalisation scheme.
- Council Tax should remain as a funding source, given its practical merits, but it should be more explicit what local services it pays for. There should be greater flexibility for local authorities to raise local resources through a mix of charging and taxation, based on local area characteristics.
- Clarify and strengthen the expectations of local government-led Improvement agencies to deal with 'how' improvement is delivered, both for stronger and weaker performing authorities.
- Correspondingly reduce inspection on 'how' and limit it to the achievement of the quasi- contracted outcomes specified by the government in its funding agreement.

Response to Inquiry questions

3 The strategic role of local government

- 3.1 The description of roles is broad and useful – stressing that councils are uniquely placed to resolve competing demands in local areas, and to promote the general well-being of the community. It could give more emphasis to the ability to orchestrate the various agencies which together tackle issues such as anti-social behaviour, rather than citing this as a regulatory function.
- 3.2 Councils should have a formally recognised role as first among equals in local strategic partnerships. Greater clarity on respective service and financial accountabilities should help to defuse some of the tendency for mutual blame that currently undermines public trust, and should sharpen taxpayers appreciation of the trade-off between the services they would like and the amount they want to pay for. Recognition by public bodies of councils' solid and improving efficiency record, rather than feeding the press appetite for denigration, would also help.
- 3.3 Elected status gives Councils the authority necessary to:
 - levy taxation
 - resolve conflicting local interest
 - consider wider area of local well-being than the defined functional activities.
- 3.4 It is worth distinguishing between minimum standards of entitlement, e.g. that each area should have access to a library service – which should be defined nationally, and minimum standards of performance, e.g. how many libraries/ mixture of static, mobile and housebound library services. Where central government is bound into delivering international targets, e.g. on landfill, it should be able to specify a local council contribution that fits into the national framework. National standards may be required for infrastructure services that need to be of common specification because they physically run across boundaries. Central government should be explicit in its funding agreement about 'what' it is purchasing as a national minimum – including where it expects a service to be free at the point of delivery.
- 3.5 It is recognised that, where central government has declared a majority stake in directing and funding a council service it would probably seek a more substantial role in setting expectations of performance.
- 3.6 In general, greater variation in service is likely to be acceptable for 'local community services', - parks, waste collection, arts, libraries, environmental health, economic regeneration, and housing. These need to be more responsive to the nature of localities than to individuals' needs. Diversity of service offering is a necessary feature if innovation and improvement is encouraged.

4. Devolution and decentralisation

- 4.1 Empowering national or regional agencies at a level which can be aligned with Council boundaries is helpful (e.g. London Borough Police Commanders). This creates closer working through Local Strategic Partnerships and Local Area Agreements and lays the foundation for future consolidations.

- 4.2 Below Council level, a variety of mechanisms are being used to encourage local involvement. However it is more likely that local residents will be interested in service issues than in engaging in forms of governance.
- 4.3 Devolution can create practical problems where units of service lack capacity to manage themselves well. Regulating and supporting them to deliver adequate standards takes a significant resource, e.g. support for multifarious local voluntary organisations, or problems of misuse of resources by some ex GM schools. It is important that, where councils rightly have a role in ensuring standards of financial management and performance, this is underpinned by the necessary levers and powers over quasi-autonomous bodies that are spending money for which the Council is the accountable body.
- 4.3 Devolution of decision making to area or other arrangements may well be desirable but may bring problems too unless adequately resourced. Havering has some 12 years experience of area committees with differing level of devolution and decentralisation over that period. It has useful experience to share. For a long while planning decisions were devolved to area committees which led to locally informed but slower decision making which did not sit well with Government targets. In the current period there may be scope to delegate decisions on priorities for street cleaning to area committees but that may make delivery of BVPI 199 more difficult. There will continue to be a tension between national standards and local priorities which will need to be resolved.

5. Managing pressures on local services

- 5.1 The description in the Report of pressures is a fair one, covering cost increases, demography, national initiatives as well as local commitments and priorities. These principal changes are compounded by rising expectation standards of service in people's private lives that they transfer to other transactions, by pressures from government exhortation and from detailed prescription through external performance inspections. Pressures to deliver service in modern ways, e.g. by internet, are usually not offset by being able to switch off less efficient means of delivery, due to access constraints. Other key pressures facing local government is the need to recruit, retain and develop high quality at a time when the labour market is so intense.
- 5.2 There are some difficult issues from the point of view of Finance staff:
- Basic cost calculation: This is not as simple as it may appear. On cost increases, the benchmark GDP deflator is rarely relevant and academic approaches to measuring local authority inflation have proved problematic. It can be difficult to disentangle the volume and price effects where services change during the year –for example, the cost of children's services where a different population of children in care has different needs than before.
 - For service growth there is a risk of assessing a well resourced new service cost at the margin, which is set next to a service level of existing day to day business that has been depleted by past salami-slice savings targets. This particularly can be fostered by ring fenced specific grants. Conversely there are instances of new burdens being grossly underestimated or disregarded, e.g. the Children's Act.

- How far services respond to new requirements is often a matter of judgement or policy rather than straightforward quantification.
- Pressures for compliance with inspection regimes and to manage the reputational risks of slipping in league tables can lead to blurring of what is required and what is simply desirable. It can distort local priorities if a minor issue sits on the critical path to bigger goals.

5.3 Assessing the size of pressures is inevitably therefore an inexact and to an extent a political process. This might be assisted by a Local Government Finance Commission, with a more overt profile and a stronger remit than current arrangements to oversee data standards and to agree common rules of engagement.

5.4 Having quantified pressures, and stripped away the baggage of unnecessary compliance, there remains the problem of allocating resources reliably to councils to manage new burdens. The grant system no longer performs this function effectively in an environment of safety nets, minimum funding guarantees and scaling back of gains. If anything, it buries the relationship between national provision for service needs and local grant allocations.

5.5 Looking ahead there seem to be two main directions, although the reality may be less clear cut: where the government intends to fund new initiatives or to make them binding, it will need to pay this as cash grants – unhypothecated at the point of use - and adjust its funding agreement with local government accordingly. Where it is highlighting new opportunities and powers, it will not provide additional funding and prioritisation will be influenced by the council taxpayer. This makes much better sense if there are indeed service areas which are left to local councils. And it will require greater self-reliance by local authorities, as well as strong communication with local residents.

6. Scope for a new agreement

6.1 Design principles for a new agreement are set out in section 1, including:

- an explicit funding agreement focussing on *what* should be delivered by local government, not on *how*;
- greater clarity on services where government takes a controlling stake and where it is in an advisory relationship, aligned with what it is purchasing;
- reconfiguration of the grant quantum by major service block in support of this restated relationship.

London Borough of Havering
13th March 2006