



Business Development
Executive Director
Jill Rothwell

Dear Sir Michael

Thank you for the opportunity to comment on your interim report. Our response covers both aspects of your enquiry. Initially we set out our views on the role and function of local government and then we address your initial reflections on funding.

1. Role and Functions

We strongly support your view on the role of local government as a 'place shaper'. In what follows we set out our views on the conditions necessary for local authorities to successfully carry out this role.

a) Devolution

You rightly point out that residents views of the role, function and funding of local authorities are blurred. A clearer 'contract' with central government is required to clarify this situation. We would argue that local authorities need to be more clearly empowered in areas of environmental management, value for money, community safety, community cohesion, culture and sport, economic development, public health and housing to set local priorities and targets and fund these services through local taxation. These are the areas most open to 'bottom up' pressures from local residents. Education and social care are increasingly 'nationalised' services. We should recognise the current political climate in these services and be much clearer that they operate to national standards with national funding.

b) Successful Improvement in Services and Customer Satisfaction

For local authorities to be trusted as 'place shapers' we need to earn the trust of local residents through delivery of good services. Increasingly, it has become clear that the current model of national performance management does not deliver improvements that drive resident satisfaction. This is a further argument for devolution to allow local responsiveness and for any remaining national incentives to be focussed on resident priorities and the drivers of resident satisfaction.



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c) Diversity

Harrow is an area of rich diversity. At the last census 41% of our residents were from BME communities and this continues to increase. At the moment there is little on the national performance framework that encourages to respond to this diversity.

Moreover, it is unlikely that central government would develop a performance regime that was sensitive enough to these factors. Again this argues strongly for local devolution to respond to diversity.

There are two examples we can offer which offer a potential model for the future local government role. These are the models we have established to deal with community cohesion and value for money. There are areas where we are doing innovative work in Harrow. The conditions in these areas of work which support these innovations are:

- i) Strong central government support but permissive performance management. There are very few national requirements in regard to cohesion and the Gershon regime offers a lot of scope for local innovation, but it is clear in both cases that Government support our work and need local government contributions
- ii) Strong resident interest in improvement. These are both areas of clear visibility to residents where strong feelings are generated leading to clear pressure for action.
- iii) Strong Staff Motivation – staff can clearly see that improvements in these areas resonate with their values as public servants. For us these are the conditions for local innovative leadership.

c) The Role of LSPs

We have strengthened our LSP over the last couple of years and have used the LAA locally to sharpen our focus on shared priorities across local partners. There is a risk that we allow the 'place shaper' view of local government to run ahead of our power to deliver this through LSPs. Local governments legitimacy to lead in LSP derives from the democratic process. Success in 'place shaping' requires strong leverage for the councils political leadership of the local police commander, PCT chief executive and other local agencies.

While the LAA model offers some opportunities for the future, it alone does not deliver change in the Departmental and top-down instincts of Central Government.

One of the levers which local government could usefully have in future in greater control over the resources flowing into the local area. Consideration should be

given to strengthening Councils leverage over the expenditure on local policing in neighbourhoods and health service expenditure.

Ultimately, of course any changes to local governments role are strongly shaped by the funding system we operate in. While 80% of our resource come from the Treasury then changes of role will be incremental. This leads us to our response to your initial work on local government funding.

2. The Funding of Local Government

a) Accountability

There is currently a significant issue of accountability caused by the pressure central government exerts through performance measures, inspections funding regimes and other exhortations. This pressure makes it very difficult to effect a local agenda.

b) Complexities introduced in the 2006-2007 Funding Regime

The government has had a strong focus on stability and predictability in recent years as part of the policy of seeking low council Tax increases. This has led to the use of grant floors and cross subsidisation via scaling as against using the raw results from grant calculation. It is also a key feature of the move to three-year grant settlements.

Nationally 184 authorities receive the floor increase in 2006-2007 while all remaining authorities see their gains limited by an 85% scaling factor. The national range of gains is +2% to +7%AS compared to an unconstrained range of -19% to +40%.

This position is not short term given the scale of losses suffered by some authorities as a result of the social services changes in 2006-2007. The losing authorities in London clearly have overstretched services.

The Technical formulae changes introduced are therefore not being used as an instrument of service policy. In contrast very significant protection is being given to avert this.

In theory funding changes follow new burdens and transfers of funding responsibility. In practice it has always been very difficult to demonstrate at an individual authority level that this is the case because of the variety of offsetting adjustments in the service and grant totals. It is now impossible with the abolition of Formula Spending Shares, in conjunction with the use of floors and scaling to see what is happening.

The only certain way to ensure the cash gets through is by extending specific revenue and capital grants, thus further fragmenting council's funding streams and eroding local democracy.

The schools adjustment has created further difficulties in relating service level to Council Tax. The adjustment has transferred funding nationally from Formula Grant to specific Dedicated Schools Grant, at the existing level of schools funding by the local Council. This is not the level reflected in the Formula Spending Share, which formally drove the Formula Grant calculation. The policy purpose was to preserve existing funding levels in schools. However, the transfer also freezes current council tax contributions for the level of service. For example, a local authority may have raised extra council tax in order to fund schools particularly above the government FSS guideline – from a perception that the formula level did not represent local need or priority. That extra is still being paid for by local taxpayers after the transfer to national funding.

In future it is likely that the government expects to bring schools to convergence with 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 Council Taxpayer will be paying twice, as its initial top up has been locked into its baseline tax level. The situation applies in reverse to councils previously spending below FSS: Council Tax pays for a historic level of service up to 2005/06 but not subsequently.

The particular outcomes around predictability and stability have been welcomed, and dampen the effect of gearing that would otherwise cause destabilising turbulence and undermine the acceptability of Council Tax. But it is harder than ever to answer a simple question of accountability – what does the Council Tax pay for?

(c) Funding Local Services

i) Council Tax

Council Tax, or a similar property based tax, has considerable merit in terms of administration and collection performance, and the clear links between residency and the local bill, as described in the Lyons report. There is however a problem in that Council Tax band is not that closely linked to ability to pay i.e. income. This defect is exacerbated by regional variations in property prices that result in taxpayers in London and the South East paying more in Council Tax than taxpayers on similar incomes in lower cost areas.

Periodic revaluation is necessary to maintain the credibility of the Council Taxbase. Regional banding should however be given serious consideration. This could help address the problem of ability to pay and take account of the larger amount of low income families in social housing in higher bands in London.

There are doubts about the addition of other bands to the tax base, since this seems to be principally responsible for the numbers of winners and losers, but without markedly changing the relationship with ability to pay, as the Report notes.

The creation of an additional band A would result in savings in Benefit costs because more people would be paying less. Other Bands will pay more, to deliver a fixed tax yield. If Band A1 households are disproportionately on benefit creation of an extra bottom band could save the Treasury money but cost the great majority of council tax payers more.

ii) Re-localise Business Rates

The re-localisation of business rates would underpin councils' responsibilities for the economic growth and vitality of their area, and give them a stake in local development. This is therefore supported.

iii) LABGI

The LABGI scheme is been welcomed because it establishes a means for councils to share in the tax yield generated locally, but the scheme itself is too complex and indirect, and baselines can be seen as something of a lottery. 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. A different approach, still short of full localisation, would be to give Councils the full benefit of rates growth, as a stronger incentive.

iv) Rates Equalisation

Given the uneven distribution of the rates yield some form of partial equalisation would be desirable. This could address the imbalance between London and the rest of England as well as the small number of authorities with very high rateable values. The rate equalisation scheme used until 1990 could perhaps be taken as a starting point for this.

v) Precepting

Precepting and to a lesser extent Levying are barriers to accountability and causes confusion about different tiers of responsibility. Low levels of borough Council Tax can be distorted by large GLA increases and given the addition to fund the Olympics this will be a problem in London until at least 2012. Separate billing by precepting would be preferable from the accountability perspective although this is likely not to be economic. At the least the presentation issues surrounding precepting should be addressed.

vi) Levying

Levying is another area where there is an accountability problem. It is recognised that joint boars and statutory Waste Authorities do reasonably form part of a local authority's spending. There are however a number of cases where individual local authorities have a minimal influence over the levy such as the Environment Agency levy and Lee Valley regional park

levy and it is suggested that these should be top sliced from the Formula Grant nationally.

vii) Local Income Tax

The introduction of a Local Income Tax is attractive because it is much more clearly linked to ability to pay than Council Tax band. There are however likely to be significant administrative problems associated with such a tax. These are likely to be more severe in London than elsewhere where there is a higher level of turnover of population and also large volumes of cross boundary flows, especially in the short term lettings market. The burden of this additional work would presumably largely fall on HMRC. It is suggested that the possibility of a Local Income Tax is revisited in the future when HMRC have made further advances in their systems that would facilitate this approach.

We hope our response is helpful in your future work. Do not hesitate to contact us if you would like further input or to explore the areas of innovation we have highlighted.

Yours sincerely

A handwritten signature in black ink, appearing to read "Joyce Staddon". The signature is written in a cursive, flowing style.

Chief Executive