

MYCCI

The Chamber

LYONS INQUIRY INTO LOCAL GOVERNMENT FUNDING - RESPONSE

Ever since the statutory requirement for local authorities to consult with their local business community before setting the annual budget was introduced about 15 years ago, *MYCCI* has been involved in the discussions with the three metropolitan councils whose districts it serves and continues to do so, although the statutory requirement has since been removed.

While *MYCCI* has always sought to be constructive, it has also sought to establish accountability - an essential element which seems simple enough - and yet to the present day, has failed to achieve this. Local Authorities have been asked by the government to detail estimated expenditure to provide the average level of service required (there is quite a difference between the highest and lowest costs across all local authorities) for what is supposed to be the same level of service for national functions e.g. allocated by central government education and social services.

This figure is to be contrasted with the amounts allocated by central government through the Standard Spending Assessment – now Formula Funding Share – so that they could be properly compared and explanations given as to why the local authority needed more money. Unfortunately, the figures were never forthcoming in the form which members of *MYCCI* need to make a proper judgement - nor has *MYCCI* been able to persuade local authorities to carry out a zero budget exercise (i.e. fresh start in the light of current requirements), to strip away the baggage which has collected over the years and features in the annual so called 'standstill' budget.

It is now 30 years since the local government re-organisation and especially in view of the changes in functions of and delivery by local authorities in the meantime and the advent of additional agencies which impinge on their activities, it is appropriate that a fundamental review is carried out, which includes the establishments of the various categories of local authorities and of their functions. Papers such as *The Guardian* carry advertisements every week for hundreds of appointments with very contrived titles. There are also the costs of providing reports/analysis etc. for government departments and of responding to directives from the Regional Boards, which have their own funding from central government.

Accountability is inextricably linked with council tax - while most of the public are not aware of the precise divide between national and local funding (the majority of those questioned though that the amount raised locally was higher than the actual figure), there is a general belief that the former funds main services such as education and social services and the latter i.e. through the council tax, is supposed to be for **locally** initiated activities for **local** requirements e.g. libraries, swimming pools and other leisure activities. Yet, there has been the annual ritual of local authorities starting that they have not been given enough funding to provide the services provision in accordance with national priorities set by central government and the council tax instead, is needed to make up the shortfall. This is duly denied by the Government.

The ritual for 2005-06 financial year has already been started by local councils and the Local Government Association and a spokesman for the ODPM has already dismissed the claims as the 'usual positioning of the LGA each year' and 'there are significant areas of uncertainty in some of the costs quoted by the LGA.' This situation is neither edifying nor helpful for the council tax payers, who are caught in the middle every year with rises in council always well above the rate of inflation with no apparent manifestation of good or better services. Surely, the time has come

after a succession of such years, for the tit tat between central and local government about who is to blame, which is certainly not a game for the council tax payers, to cease and the issue to be resolved once and for all in a decisive and transparent manner. Accountability would not change dramatically if the ratio of funding changed from the present 75% central/25% local to say 50%/50%, because on present performance, local authorities will still use the same argument and say that the 50% funding from central government is not enough.

With regard to national priorities local services, the question has to be asked in respect of functions such as education and social services, funded by central government, which also defines key elements and aspects of their implementation, what role there is for councillors (except for cabinet members), i.e. how much discretion in execution and scope for virement, to have any significance. In other words, to what extent in respect of these functions, are local authorities acting merely as agents for central government? However, it is well known that there is a quite a span of difference between the best performing local authorities on the one hand and the least well performing ones on the other hand. If **local** government is to mean anything worthwhile, then the differences should be attributable to some extent to the differences in the quality of councillors and leadership in motivating staff in getting the best out of available resources.

The Government is now trying the inducement of Public Service Agreements to reward local authorities for improving their services, but the likely result is the rewards will be go to those that are already reasonable successful and others will continue to lag behind. Furthermore, local authorities need to make resources available of their own up-front as part of the exercise.

Review how the Government's agenda for devolution and decentralisation, together with changes in decision making and funding, could improve local services, their responsiveness to users and efficiency

The local government re-organisation in 1974 was led by central government and had not been sought at local level. The creation of fewer larger authorities certainly made it easier for the implementation of national policies. It was envisaged that the larger local authorities would adopt a more strategic approach. But this has not happened in practice, because the majority of councillors did not adapt to the change and maintained a parochial perspective.

In the circumstances as set out under 'Present Situation' above, much of the activity goes on without the involvement of councillors, with staff at local government level) effectively working for central government - that is not the same as local democracy. There is now the almost universal cabinet set up structure with considerable delegated authority, which provides overall supervision and there is delegation to officers. There is now very little committee structure and the majority of the 50-55 councillors of a unitary council have a more peripheral role. The time saved from the former innumerable committee and sub-committee meetings, which by the nature of the system were generally not productive for a number of reasons, ideally, should be used for strategic thinking, which can apply at local level just as much at higher levels. It would appear that the scrutiny committee structure has operated rather narrowly, with the emphasis on current decisions of cabinet, rather than on research and innovation, involving new thinking and identifying opportunities, leading to fresh approaches with regard to the local authority's service for the benefit of the people in its district.

It was central government that found it necessary to cause local councils to make closer contact with the people on whose behalf they were supposed to be acting, e.g. the new Planning Act with regard to community involvement and Local Strategic Partnerships – MYCCI is a member of the three, whose districts it serves. With the emphasis on partnerships, involving the private, voluntary and community sectors, and with other agencies including those publicly funded, local authorities have been given the opportunity to provide leadership. But this has to be tempered by local authorities seeking a too dominant role in all circumstances, which has previously been the rule. It is disappointing that the original intentions for LSCs were watered down and they finished up by being both non-statutory and non-executive. MYCCI will be responding to the consultation on the ODPM paper *Local Strategic Partnerships: Shaping their future*.

In the light of the above, consider in particular, how improved accountability, clearer central-local relationships, or other interventions could help to manage pressures on local services, and changes to the funding system which will support improved local services

During the debate on local government funding, assertions have been made that if more money was raised locally, there would be more accountability. MYCCI does not subscribe to this as a factor on its own. As stated earlier in this response, the majority of the public are under the impression that more money is raised locally than the present 25%. It has been suggested that accountability is associated with democracy i.e. the composition of councils can be changed by voting councillors in and out. This is not working as shown by the apathy at local government elections.

The reason is that even the most 'ordinary' member of the public knows that local authorities are very much under the thumb of central government and therefore, that voting councillors in or out, will not make much difference. This is a major reason why the very kind of people most fitted and needed to serve the community are not standing for election to local councils.

The major reason for the decisive rejection in the referendum of a regional elected assembly for the North East was because ordinary members of the public decided that on the available information, it would have no worthwhile powers to justify the costs and trouble of its setting up and operation. It was all the more telling, because the area had been used to government subsidies and associated bureaucracy since the 1930s.

The question needs to be asked, that if local government was being set up in the circumstances prevailing in the early years of the 21st century, would it be the same as the current form and arrangements, which basically date from the end of the 19th century? MYCCI suggest that the answer must be the negative, Over the years, bits have been tacked onto the local government structure and a large amount of 'guidance' issued by central government, but there has been no major overhaul of the its workings and relationships with central government. Even now, a change is being proposed, which is purely structural, that was originally a condition linked to elected regional assemblies – namely existing county and district authorities will be replaced by unitary authorities.

MYCCI suggests that a complete overhaul of the relationship between central and local government is needed. At present, the arrangements are very much related to complex equations within the Formula Funding Share and associated guidance for implementation to a national standard. The democratic test is that the figures and arrangements as decided by central government for each local authority should be

transparent enough for publishing and to be understood by the electorate and not just by a few staff of a local authority's finance department. From its experience of participation in annual budget allocations, some councillors do not understand the finances and even **MYCCI** members who are chartered accountants, have had difficulties in making sense of the figures. The settlement could be in the form of an agreement, with supporting comments tailored as appropriate, for each local authority e.g. on the lines of Public Service Agreements, which would allow some flexibility national standards and local variations.

If local councils claim there was a shortfall in funding allocations, (**not** connected with the desire to provide levels of service above the 'average'), which would have to be topped up from council tax, they would have to provide sufficient justification in the public domain, to enable council tax payers to make their own judgement on the validity of the claim. Ideally, there should be sufficient understanding on both sides to avoid ongoing disagreement, which is currently the case. In any event, whatever arrangements are made, there must be the annual saga of claims and counter claims between local government and central government, which has continued for so many years.

MYCCI also suggests that central government makes clear the parameters for the use of council tax i.e. with regard to local initiatives to meet local needs. **MYCCI** believes that the expenditure from the proceeds of Council Tax should be clearly identifiable within the total council budget. It should distinguish between what is being used to make up a 'shortfall' in funding from central government on the one hand and what is being used for truly local initiatives for local needs.

There should more scope for consideration of the framework of budget (not the minutiae of the detail), well beyond the confines of the local authority. There are few examples of a referendum being carried out by a local authority. There is the issue of participation in such an arrangement; there is a strong argument that only council tax payers should be eligible because those who are not, could vote on the basis of the sky is the limit. There is now a review being conducted by the ODPM of Local Strategic Partnerships. This is an opportunity to consider a more powerful role for them in view of their representation of the local community in a different way to just those individuals who have been elected, usually on a very low count, for various wards onto to a council. In the words of the Government, they are the overarching body to co-ordinate all available resources in a district and it is therefore appropriate, that they should have an involvement in the budget process as part of their remit.

The Balance of Funding Review, which led to the setting up of Sir Michael Lyon's inquiry into Local Government Funding, discussed various forms of raising revenue locally, such as a sales tax and a bed tax etc. which are now being further examined and developed as part of his inquiry. Any action on these by a local authority should definitely be subject to special arrangements e.g. a referendum and **not** left to a small number of councillors (see paragraph immediately above).

Policy and Representation Department

MYCCI

Commerce House

Aspley

Huddersfield

HD5 9AA

Tel: 01484 438800

Fax: 01484 514199

email: info@mycci.co.uk

www.mycci.co.uk

The Mid Yorkshire Chamber of Commerce and Industry Ltd.