LOCALIS

AN ESSAY COLLECTION

Moving through the gears

WHERE WILL LOCAL GOVERNMENT FINANCE BE IN 2030?

About Localis

Who we are

We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Decentralising political economy.** Developing and differentiating regional economies and an accompanying devolution of democratic leadership.
- **Empowering local leadership.** Elevating the role and responsibilities of local leaders in shaping and directing their place.
- **Extending local civil capacity.** The mission of the strategic authority as a convener of civil society; from private to charity sector, household to community.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.

What we do

We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. We also run a membership network of local authorities and corporate fellows.

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Introduction

By Jonathan Werran, Chief Executive, Localis

At the time of writing, the underlying narrative of local government finances is, to quote the late Denis Healey, 'a sky darkening with the wings of chickens coming home to roost'. The loudest clucks come from the coverage of those councils who saw the wheels come off their carriage in their pursuit, honest or otherwise, of the commercial council agenda.

This is also a time of budget setting and the sound of cost-of-living pips being squeezed as most councils follow the inducement to whack up council tax to the maximum five percent limit. On the national stage, the failed political theatre of the second round Levelling Up Fund disbursements, and in particular the disdain of West Midlands Mayor Andy Street at the iniquities of tournament financing, brought stirrings of fiscal devolution back to the limelight.

Wound tightly from the time of the astringencies of the 2010 spending review to the limited protections that saw the sector through the Covid years, the principal cogs of local government finance - property taxes, commercial revenue, fees and charges, capital expenditure and grant funding, are clearly out of synch. As is evident from our wide variety of contributions, while there isn't a great hope for radical fiscal liberation after the next general election, the system has within it the seeds of reformation and resolution. The gears of local government finance are fixable.

Despite the strictures of the 2022 Autumn Statement, it seems the chancellor Jeremy Hunt could be minded to act on the hint given at his speech at Bloomberg on 27 January, when he promised to 'move more decisively towards fiscal devolution so that fantastic local leaders like Ben Houchen and Andy Street have the tools they need to deliver for their communities'.

And from a reenergised Labour opposition, the flagship reform paper 'New Britain' penned by former prime minister Gordon Brown puts fiscal devolution and powers to allow English councils to generate money locally, alongside a recommendation for a long-term finance settlement to support place investment.

So, ahead of the March Budget, perhaps the last great set piece fiscal event for the chancellor to try to change the tide of the political times, Localis has asked some of the major players from the local government family, experts and academics, to set out their thoughts, views and hopes for local government finance in the next political cycle.

I would like to express my sincere thanks to our contributors for providing, through their individual perspectives and insight, a fully-rounded vision of how local government can, with a bit of help and understanding from a central state now responsible for more than a trillion pounds a year of total government expenditure, deliver for the people and places they are committed to serving.

We have considered views from spending watchdog Abdool Kara (writing in a private capacity) and CIPFA's Iain Murray outlining the role of professional ingenuity to meet future challenges.

From the local government family, we have the analysis of the chairman of the Local Government Association, Cllr James Jamieson. London Councils Paul Honeyben reflects on where the capital is a decade after the London Finance Commission.

We have a county viewpoint from Surrey County Council leader Cllr Tim Oliver, and from the District Council's Network the thoughts of chairman Cllr Sam Chapman-Allen, as well as a parish perspective from NALC's Jonathan Owen.

Alongside this are expert viewpoints on the realpolitik of fiscal devolution from Professor Colin Copus and Dr Mark Sandford from the House of Commons Library, and Localis's own Joe Fyans on solving the riddle of net zero finances. This essay collection certainly covers the ground for reform and recalibration.

There is within this collection a blueprint for the pragmatic regearing of local government finances to meet the population and service pressures, the economic and social challenges we face, from now to the end of the next political cycle at the decade's end.

ONE

Taking the strain – securing the sector's future financial sustainability

BY ABDOOL KARA, EXECUTIVE DIRECTOR, NATIONAL AUDIT OFFICE

A collection entitled "where will local government finance be in 2030?" gives contributing authors a choice – to write about what we ideally would like the position to be in 2030, or what we think it actually will be? I will be taking a 'could' rather than 'should' approach, considering changes that stand a chance of becoming reality, and not a wish list of radical but unlikely options.

This essay reflects the author's personal opinions and does not represent the position of the National Audit Office in any way.

The starting point is, of course, that the way the sector is funded is a mess; in fact, local government funding is a lot like the House of Lords – most everyone agrees that it is out of date and needs to be reformed, but it's challenging to get agreement on what that reform should look like. Nobody can argue, however, that any reform of local government finance should seek to improve value for money for tax payers, ensuring their money is spent wisely, especially in hard times, whilst also building the financial resilience of the sector.

So, to aid the debate, I will set out some areas where I think the door on change is somewhat ajar, or at least not bolted shut, and there is a reasonable chance of positive change by 2030 – if not by the current government, then by the next, or perhaps the one after that.

Spoiler alert – in summary, I expect the 2030 local government finance system to look a lot like today's. Given that the current government has shown little interest in fiscal devolution (though we await the Greater Manchester and West Midlands trailblazer devolution deals), and that the Labour Party have indicated no significant devolution of fiscal levers should they win the next election, we can expect few truly radical changes. But crucially, this doesn't mean that the sector can't be in a much healthier financial position than it is today.

The only place to start is with adult social care (ASC). Simply put, local government's finance system cannot be sustainable until ASC funding is resolved. The good news is that it is near impossible for an incoming government not to have this as a priority. Sadly, this will probably be framed in terms of the highly visible impact the funding deficit has on the NHS. But at least the consequence of such framing is the likelihood of a practical proposal to solve the ASC problem.

Given this, the sector is in a strong position to argue that funding social care largely from property taxes (both household and business) is unjustifiable given the inverse relationship between need and funding raised, so government will need to identify an alternative, whether through taxation, national insurance, or a mandatory personal insurance scheme. Such an injection of funding for local government (which should of course continue to be the commissioners of ASC) will help not only solve the ASC and NHS issues but reduce the crisis in other underfunded local government services. And if of sufficient quantum, it could release funds for councils to invest in other much needed areas, for example new housing and achieving net zero. The latter in particular would be a win-win-win, for the sector, for the planet, and for the government brave enough to make it happen.

If ASC can be solved through a national intervention, what about local taxes? Let's start with council tax (CT). Again, I believe that we are unlikely to get to

2030 without revisions to CT arrangements, but let's be clear, CT isn't going away. Property taxes (including business rates) are the easiest to calculate, collect and administer, so no chancellor is going to remove them, though all want to tinker with them, not least because of the extensive lobbying against them, a consequence of their very visibility.

But there is now widespread understanding that CT is a regressive system, within council areas and also across the sector as a whole. So, we could see the introduction of new CT bands at the top end, to reduce this regressive effect. Moreover, it would be rational to do this alongside the long-delayed revaluation of property values. However, the likelihood of there being significant winners and losers (both households and councils) from this will ensure that significant transitional arrangements are put in place to dampen the degree of change being triggered – it may take several years for a government to allow the stagger to unwind.

And what of that other great local property tax, business rates? All parties indicate a desire to review business rates, but the logic of property taxes will always win out, and they will remain in one form or another, whatever a manifesto or minister might promise otherwise. No doubt there will be much tinkering at the edges, around reliefs, use classes etc., but I envisage a broadly similar system in 2030 to that in place today.

More interesting is whether the incentive to grow and retain business rates locally remains. The challenge here is that the two key guiding principles are both unarguable whilst pulling in opposite directions: geographically differential economic growth rates demand a redistributive mechanism; but local retention of business rates provides strong incentives to drive local growth. So, the question is whether it is possible to design a system that can do both. The current system not only does this badly, but it also actually runs the risk of ever-delayed resets because it is too difficult politically to appease the losers from such resets. But I don't think that it is beyond the wit of humankind to devise a system which better balances these requirements, and fully expect to see this in due course.

Having dealt with ASC and the two main local property taxes, what about other forms of local income? The key here is that the sector needs to, and has a good chance of, establishing some key principles with an incoming government. We may not get the constitutional settlement between local and central that Gordon Brown has called for, but I think various agreements can be reached.

The first would be that fees and charges for services where punters have choice (e.g., leisure centre use), should always be set locally. Secondly, where fees are set by central government, no fee should be set such that services are run at a loss locally, in other words, such that local people subsidise service users. Planning application fees are a great example of a hidden subsidy from (on average) poorer local residents to (on average) richer local residents or developers – this is just wrong.

Thirdly, additional fees and charges at the margin should be allowed, e.g., a tourist tax. This may not raise much funding in some places, but it is clear that tourism places demand on local services (e.g., litter collection) and on the upkeep of local cultural and heritage assets, and these costs should not be subsidised by local people who are (on average) less well off than the tourists. There may be similar compelling arguments for other tactical new taxes to be established.

Lastly, there is an opportunity to get the 'New Burdens Doctrine' onto a stronger, statutory footing, that would enable judicial review of allocations being made under the doctrine. This could be a key step in the local government funding landscape going forwards.

Having covered locally raised funding, what about revenue grant funding from central government? It is highly likely that a new government will swiftly conduct a fair funding review unless it is a hung Parliament. Given recent criticism of 'pork barrel' politics, such a review will receive significant scrutiny, and the government of the day would be well advised to design this review transparently, in close consultation with the sector, and with independent advice from the likes of the ONS. Anything else runs the risk of overwhelming challenge from the sector and other stakeholders, and then being undone immediately by the next government.

Regardless, a return to something like the revenue support grant, which compensates authorities according to their ability to raise funding locally, seems likely. Of course, if ASC is (largely) being funded through a separate mechanism, then the stakes, as well as the quantum of funding, are lower, and the change process stands a greater chance of success.

So far, I have covered the revenue elements of local government funding, arguing that changes will largely be evolutions of existing mechanisms rather than revolutions. In contrast, it is on the capital side of the budget where I believe we may see more radical change.

There is growing debate about the proportion of increased value retained by landowners where a change of use, usually to housing, is agreed through the planning process. Most other western nations have a land value uplift capture mechanism, and I can foresee a near future where the UK will introduce similar. Given that taxing wealth is more economically efficient than taxing income, this may be the first step a new government takes in that direction. Generating more funding than s106 agreements and Community Infrastructure Levies, it would reduce public liability for infrastructure spend, whilst also potentially raising further capital funds to support the 'green transition' towards a net zero future. And as an aside, it could also dampen new house prices through lower contributions to infrastructure costs than under current arrangements.

Before concluding, it's worth highlighting some core National Audit Office messages that are relevant to this essay. Value for money, and therefore financial sustainability, requires longer-term funding arrangements, so we recognise the inefficiencies of short-term, stop-gap, and top-up arrangements, as well as of the many 'tournament' funds that have appeared in recent years. Such a longer-term outlook from central government would also enable a transition from crisis management towards prevention, early intervention, and better demand management, particularly in high-cost, responsive services such as adult and children's social care, and homelessness. And greater financial sustainability makes for greater sector resilience, which in turn enables local government's leading role in supporting local communities, particularly in times of crisis, as we so clearly saw during the Covid-19 pandemic.

So, in conclusion, can we look forward to a future where ASC is fully funded but not by local government; council tax is no longer regressive; business rates growth is both incentivised and redistributed; fees and charges are not subsidised by the general tax payer; new burdens are fully funded (and challengeable if not); grant support from government is set on an independent, rational basis; and communities as well as land-owners benefit from development? I don't see why not - none of what I have set out would be beyond a new government of whatever persuasion, assuming a reasonable majority.

If this turns out to be largely what local government funding looks like by 2030, I think there is every chance that the sector's future financial sustainability is indeed secure.

TWO

Place leadership – moving us out of first gear

BY CLLR JAMES JAMIESON, CHAIRMAN, LOCAL GOVERNMENT ASSOCIATION

Speculating on the potential future of local government finance has tended to be a fruitless exercise in recent years. Unforeseen events create unexpected new pressures and demands. Existing strategies and plans are changed or delayed. The sector adapts and innovates, often introducing new financial strategies and measures that could not have been anticipated.

In this context I am going to avoid crystal ball-gazing. Instead, I want to focus on a number of key financial issues that must be addressed going forward if local government is to be on a financially sustainable footing by 2030. These key issues reflect the fact that the world has changed dramatically over the last 15 years. Not only have councils faced a decade of austerity, but there is also no certainty of future funding, and council tax is subject to referendum limits. We are subject to bidding for multiple pots of money and councils have less control over their finances than at virtually any point in history. Councils operate in an uncertain, short-term financial context but, as with the country as a whole, we need to invest for the long term and to be able to plan for five years or more.

There has also been a fundamental change in demand on councils. Fifteen years ago, social care represented less than 50 percent of council expenditure, but it is now approaching 70 percent for the sector and growing. This is a fundamental difference. For many councils a significant majority of their expenditure is on statutory services, and the only way they are managing the budget is to ration even statutory services. And then we have had Covid, Ukraine, the cost-of-living crisis, and a housing crisis.

There needs to be a fundamental rethink of council funding, which is linked to the underlying change in demand for council services. Council tax, while a reasonable funding stream for things like roads, waste, and planning, is not appropriate for social care, where demand is growing substantially faster than the council tax base and there are huge differences in demand between councils. Funding needs to be aligned to underlying demand pressures.

With the UK debt reaching 100 percent of GDP and the tax burden at its highest in decades it is unrealistic to expect substantial increases in government expenditure. But there is a way out, and that is based on genuine place-based devolution. Councils are the most effective part of government and making decisions on a local basis delivers better outcomes. It is heartening to see a commitment to greater local decision-making across the national political spectrum and I will continue to press for good intentions to become reality for our communities.

If we are to have genuine devolution, councils need to be in control of their own financial positions, not reliant on bidding for multiple pots. Many of these pots are focussed on growth and levelling-up, so why not enable councils to benefit from doing the right thing? Increased tax revenue from growth should be shared with councils. But devolution also means making more decisions at a local level, which means devolving decisions and funding on things like skills, transport, education and health to the local level.

In this context there are three priorities that need to be at the heart of a long-term strategy for local government. First, there needs to be reform within the local government finance system both to increase the quantum of funding available and, just as importantly, to create greater certainty to allow councils to plan effectively. Second, a financial solution needs to be found in relation to adult and children's social care as they now dominate local government finances in a way that was not the case 10 to 15 years ago, restricting councils' capacity to deliver other services that are highly valued by residents. Finally, financial reform needs to be built around further devolution. Local leaders know how best to spend resources locally.

Reforming the local government finance framework

Local government has yet to recover from the austerity of the last decade in which £15bn of government funding was stripped from the sector; a far higher relative cut than experienced by health bodies or the education sector. Growing service demand in areas such as social care and homelessness has added further financial pressure, a process that has been exacerbated by recent soaring inflation. In this context there is a strong case for financial reform that addresses the severely under-funded position local government now finds itself in.

Councils also need a financial framework that provides certainty - 2023/24 is the fifth consecutive year councils have received a one-year settlement. And this is within a context of delay over significant financial reforms including the business rates reset, further retention of business rates, the Fair Funding Review, and reforms to other grants such as the New Homes Bonus. The resulting lack of certainty for councils hampers their financial planning and weakens their ability to secure financial sustainability.

Council tax and business rates reform

While council tax is now a substantial element of council funding, it is not the answer to the underfunding issues the sector faces. Councils are keenly aware that council tax increases add an extra financial burden on already struggling households. In addition, it raises different amounts of money in different parts of the country unrelated to need and it would fall short of the sustainable long-term funding that is needed.

Notwithstanding the limited potential council tax has to resolve the sector's financial challenges there are still strong grounds for reforming important aspects of the current council tax framework. Referendum limits should be abolished so, when the time is right, councils and their communities can decide what increase in council tax is warranted to help protect or improve local services. Councils should be given the powers to vary all discounts including the single person discount, which is worth around £3bn a year.

Business rates, which fund a substantial and growing element of council funding, have been the subject of significant unresolved debate and review in recent years. In the continuing absence of substantive reform there are nonetheless important changes that the government could make to the current framework. These include allowing councils to set their own business rates multiplier, giving councils greater flexibility on reliefs, and undertaking a review of exemptions to help reduce avoidance rates.

Alternative funding sources

There needs to be some consideration of alternative forms of income for councils such as a tourist tax or an online sales tax with the funding retained by councils to supplement councils' existing funding streams. It was disappointing that at the 2022 Autumn Statement the government decided not to introduce an online sales tax. The LGA supported the consideration of an online sales tax, particularly as it would help to spread the range of the tax base for business taxes.

A place-based and preventative funding model

There must also be a move away from piecemeal pots of funding allocated through wasteful competitive bidding processes. Government should instead adopt a place-based approach in which funding is aligned with local needs and opportunities. Bringing budgets together into one place has the potential not just to tackle the immediate problem of fragmented local government funding, but to go further and help develop a national model in which money is allocated to places and not departmental silos. The forthcoming funding simplification plan will be an important step to streamline the current approach across Whitehall.

A place-based approach should be accompanied by a renewed focus on prevention, backed by government investment to address existing and future demand for services such as social care, homelessness support and community safety. This would also lead to saving elsewhere in the public sector such as the NHS, employment support and the criminal justice system.

Distribution of needs and resources

The government stated in the Autumn Statement 2022 that the Review of Relative Needs and Resources will not be implemented in the current Parliament. It is essential that when the Review does take place it considers both the data and the formulas used to distribute funding and the government. Meaningful reform can only be built on the basis of a clear understanding of the distribution of needs and resources locally. Government must also ensure that any resulting changes from the Review do not see individual councils facing reduced funding.

Securing certainty

Addressing the above issues will help provide councils with greater financial certainty, giving them a greater degree of control over council tax and business rates income and the potential to raise funding from new income streams. But many funding decisions will remain with the government. Consequently, any reform package must include timely multi-year settlements to allow councils to plan and make meaningful financial decisions that improve value for money and financial sustainability.

Addressing adult and children's social care financial pressures

Steadily growing demand means councils with responsibility for children's and adult social care now devote nearly two-thirds of their total spending to these services. This demonstrates councils' commitment to protecting these crucial services, but it comes at the expense of funding for other important services. Ultimately the enormous and increasing scale of the social care challenge facing councils as a result of demographic pressures continues to threaten their ability to deliver services and investment for residents. This is completely unsustainable. A solution that both ensures that users of social care services get the help they need and reduces the pressure these services exert on councils' wider budgets must form a central component of any programme of local government finance reform.

Adult social care funding

Adult social care services have faced a decade of underfunding accompanied by growing demand now exacerbated by inflation. The LGA has called for an additional £13bn in recognition of the severity of the pressures faced by councils. This includes £6bn to stabilise the sector in the short term by addressing current inflationary and demand pressures.

A further £7bn is needed to enhance capacity so that councils can deliver the range of statutory duties under the Care Act. This remains a well-supported piece of legislation, but its full intent has never been realised owing to funding pressures since the Act's implementation in 2015. This is particularly true in respect of social care's wider preventative duties and the role it plays in supporting discharge and helping people recover from time spent in hospital. This includes addressing historic under-investment in areas such as supported housing, tackling unmet need, and in recovery services such as enablement and intermediate care offers.

Children's social care

As with adult social care, children's social care is exerting a growing pressure on councils' finances. Councils spent over £10.5bn in 2020/21, nearly 25 percent more than in 2016/17. But this has not been enough to meet the impact of rising demand and rising costs. LGA analysis indicates that the service faces an existing annual shortfall of £1.6bn simply to maintain current service levels. Current funding levels are also insufficient to secure much-needed reform in the sector. The 2022 MacAlister Review costed these reforms at a minimum of a further £2.6bn over four years before inflation.

Devolution

I believe that the stark fiscal context facing the country strengthens the need for a radical re-investment in local devolution, drawing on the lessons of Total Place, Whole Place Community Budgets, the Supporting Families programme, and others, to reform public services and better align scarce resources with the needs and aspirations of local communities. Genuine devolution must mean greater fiscal freedom, the power to raise more money locally and have greater control over how this money is spent in local areas. We eagerly await government's ambitious 'Trailblazer' deals with Greater Manchester and the West Midlands which lay the groundwork for this to become a reality and look forward to government opening this opportunity to other areas in the near future.

Fiscal devolution

The UK continues to be an international outlier, one of the most fiscally centralised countries in the developed world. Local authorities in Germany, Switzerland and the Netherlands can access a diverse range of revenue sources. They are also able to adjust and introduce local levies in consultation with their residents and businesses, innovating and diversifying their tax base in response to new public priorities. By contrast councils in England are only able to levy two taxes: council tax and business rates. Both are subject to significant intervention and control by Whitehall and both stand increasingly exposed in the light of long-term changes in home ownership and business composition, such as the rise of e-commerce and the growth in microbusinesses.

Devolution of powers and freedoms

Devolution should be at the heart of our national plans for growth. Sub-national government expenditure on economic development should be brought into line with our major international competitors, such as Germany. And councils should be given the tools and resources they need to drive growth and address regional imbalances in productivity by delivering on the commitment to offer every area in England that wants one a devolution deal by 2030. In addition, in line with National Highways, Network Rail and mayoral combined authorities, councils should be given five-year allocations for highways and local transport capital and maintenance programmes.

Leadership of place

Due to its place-based leadership role, local government is uniquely positioned to invest in sustainable preventative approaches that save money for other parts of the system. No other part of the public sector offers the same scope for unlocking savings in the NHS, the Department for Work and Pensions and the criminal justice system. Through targeted investment in social care and children's services, public health and unemployment support councils can transform people's lives and move away from the costly pressures of acute intervention. This has already been demonstrated where devolution of health and social care has taken place. To capitalise on councils' capacity to act as place leaders the government should pilot a new approach to public service investment, by asking areas to come forward with radical proposals to bring together budgets and public services under the leadership of local government.

Conclusion

While crystal ball-gazing is always difficult, the one certainty is that the current situation is unsustainable. If we do not change the way we finance local government and provide adequate, independent and long-term funding we will see increasing numbers of councils in financial difficulties as they are squeezed between inadequate funding and statutory obligation. But by addressing the three issues I have set out, the sector will be in a fundamentally stronger and more sustainable position. This will have significant benefits not only for local service users, which include some of the most vulnerable groups in our society but will also support national agendas on areas such as housing, growth, and support for the NHS. Ultimately, if we do not do justice to the financial needs of local government then the risk is that these efforts will remain stuck in first gear.

THREE

Moving through the gears or just grinding the gears: devolution and fiscal autonomy for local government

BY COLIN COPUS, EMERITUS PROFESSOR OF LOCAL POLITICS, DE MONTFORT UNIVERSITY; VISITING PROFESSOR GHENT UNIVERSITY; LOCALIS RESEARCH FELLOW

Introduction

Local government must remember the depressing truism of its relationships with the centre when it comes to devolution: oppositions promise, governments fail to deliver. A cynical view – maybe – but one developed from decades of experience. It is even more depressing for local government when considering that despite the word 'government' in its title it does not have the power to raise taxation, or other sources of finance, or to spend that money in a way any institution bearing the name 'government' would be expected to be able to do. As each new initiative, policy proposal or set of promises for devolution and reforming finance comes along it soon becomes mired in the minutiae and detail of the existing system and how to make it a bit better. New radical proposals simply cannot be accommodated because they don't fit the existing system. So, we never move through the gears of local government financial autonomy as simply grind them till they become jammed.

If devolution to local government in England is to mean anything, and it rarely does, we need to explore changes that will fundamentally recast the central-local dynamic and stress the 'government' in local government. With England already having the largest units of local government across Europe and with the current government and Labour opposition being supporters of yet more increases in council size, we have already lost the 'local' in local government; but can we save the 'government' by increasing local financial autonomy?

If local government is to be the 'government' of its locality, then we need to look overseas for some lessons. It is useful for us to reflect on the reluctance our centre has to explore the levels of taxation and financial freedom that exists overseas. Rather depressingly a senior MP when referring to the possibility of a tourist tax for local government bemoaned the lack of an operational model from which to build. The fact that some 120 countries across the globe have some form of tourist tax must have slipped off the radar!

So, it is alternative blindness, being prone to tinkering rather than radical reformulation and centralist thinking that blights local government financial autonomy. The big problem for those in control at Westminster is that true devolution for local government means giving power to councils that may very well be controlled by another party. For Whitehall, it means not being able to pull the purse strings of local government and oversee and control what it does. These centralist attitudes need to change. Anyone can talk devolution – but are you really ready to deliver devolution and the financial autonomy on which it necessarily stands?

This paper offers a review of some taxation powers resting with local government overseas and what that tells us about moving up through the gears of local finance. It gives examples of what an enhanced local taxation regime and greater fiscal autonomy might look like across local government in England and gives a flavour of how things could change to enhance local autonomy.

In reading this paper some may nod sagely in quiet but frustrated agreement, others will tut silently muttering 'it'll never get off the ground', and others will run screaming into the hills at the very thought that local government should become 'government' in any classic sense of the word. But all of what follows is not a flight of fantasy; it exists somewhere in the world of local government, just not all in the same place.

Gearing or at Least Getting out of First!

Our complex, complicated and centrally controlled system of local government finance fits nicely to the old expression that "Only three people understand this: one's mad, one's dead and one's forgotten". The overwhelming temptation for any government stating commitment to local government devolution is to focus on the existing system, tinker, reform, reorganise and even 'reimagine'! But the existing system remains after all of that has taken place.

There is, in the two main national governing parties, no real appetite for radical, fundamental and thorough-going recasting of the local government fiscal system. Why? Well, by doing that, the centre gives away control of what happens locally, and no government really wants to hand power, and taxation power in particular, to political opponents in councils across the country. As local government is so heavily dominated by national parties, which at the time of writing hold about 88 percent of councils' seats across England (this might change on 4th May 2023, but the national parties will still dominate), the national governing party risks their opponents having powerful fiscal tools available to them. Best then just to promise devolution while in opposition and fudge when in power. But the very act of promising devolution recognises the unpleasant truth that England operates in one of the most centralised governing systems.

It is widely accepted in local government that devolution without fiscal autonomy is unworkable and unachievable. A rather muted but nonetheless useful source of support for fiscal autonomy comes in the shape of the European Charter of Local Self-Government (1985) which states in article 9.3: 'Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within limits of statute, they have the power to determine the rate'. Despite the Blair Government signing the charter in 1997 (some 12 years after everyone else) we are far from fully complying with the article.

Moving through the gears means ending central control and diktat of local government fiscal powers. It also means greatly extending the basket of taxation powers available to local government from which to choose, not only to generate financial resources but also as policy tools.

It is commonplace across local government globally for a sizable proportion of local tax revenue to come from one or two major taxes, sometimes up to 80 percent (OECD, 2016). That income, however, is supplemented by a range of other taxes which individually may provide only a proportion of council income, but which collectively provide valuable resources and financial autonomy. There is nothing that says that such high percentages must come from one or two taxes however, but property and income, for example, are easy to spot and tax.

But let's consider some others. First, an old favourite: the tourist tax. Few reading this paper would not have checked out of a hotel after some business trip or weekend away and been presented with the hotel bill and, often separately, a municipal tourist tax bill. We pay and leave – no one rages in fury vowing never to return or moves to that city to vote out the scoundrels who imposed a 2 Euro tax on their stay. A tourist tax is the ultimate taxation without representation and rightly so. Tourism is not a cost free, income-generating-only process. Such taxes enable local government to invest in and replace services consumed by tourists without paying for them, such as water, transport, waste management, land management and public health (Hughes 1981, Derek, 2021). While tourist taxes will not be the mainstay tax of any council, they do provide an additional source of vital income.

Those seeking an operating model for the introduction of a tourist tax for local government in England, could well look at:

- Austria
- Belgium
- Bulgaria
- Canada
- Croatia
- Czech Republic
- France
- Germany
- Greece
- Hungary
- Italy
- Netherlands
- Portugal
- Romania
- Slovenia
- Spain
- Switzerland
- The US

(To mention just a few.)

Tourist or city taxes are set independently by local government, normally at a percentage rate per night of stay or as a fixed rate on top of the bill. Such taxes can also be levied via restaurants, tourist attractions or cultural exhibitions and museums.

An attempt to levy a tourist tax for the Commonwealth Games in Birmingham resulted in the same dismal and patronising view of local government being expressed in parliament and for the idea to fall on deaf ears. One MP pointed out in the debate, that the full rate of VAT was charged here on hotel stays, hospitality, and leisure, unlike in many other countries: so, we didn't need a tourist tax. Remind me please where VAT goes? Not the council that's for sure. Let's be clear: no one, absolutely no one refuses to go to a city or to return to it because they have a tourist tax. No one!

But it's not just about making sure tourists contribute their fair share. There are a whole host of other taxes that exist for local government across the globe which include the power to levy a tax on: vehicles and roads, inheritances and gifts, patents, personal income, land value, advertising, gambling/amusements, electricity and gas consumption, business/real estate, dog ownership, sewerage and levies on water pollution, use of municipal land, agriculture land and forests, local lotteries, and, notably in US states, personal moveable property such as:

- boats
- cars
- jewellery
- airplanes
- computer equipment
- tools
- Furniture.

(see Bafoil, and Lefevre, 2008; Dessoy, et al 2014, Cammenga, 2019)

Belgium municipalities have access to around a 100 different local taxes and discretion over the rates (De Rynck and Wayenberg, 2010).

The screams of centralist horror at what is being proposed here are deafening. But we are talking about a basket of taxes which councils themselves can choose to use, or not. We are talking about a system where the rates and types of taxes employed are at the discretion of individual councils and not something which suits the centre's need for tidiness and control. The idea that Westminster and Whitehall know what is best for every council across England is risible. Yet we continue to operate in a system which denies councillors elected locally the use of their knowledge, connections, and appreciation of the needs of their area to design systems of taxation to meet those needs.

It is time to give our councillors the fiscal tools they need to get on with the job and a basket of taxation powers to choose from to suit their areas and for the centre to get out of the way. Now that really is devolution: anyone?

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FOUR

A devolution solution to funding challenges

BY CLLR. TIM OLIVER, LEADER, SURREY COUNTY COUNCIL

That local government finances are challenging is not in doubt. There have been significant reductions in central government grants to councils of all types since 2010 as well as an increasing number of local authorities needing commissioners to come in to help restore sound financial budgets.

This has coincided with increased costs of the various services that councils provide, partly through rising demand and partly because of cost-of-living pressures. Many areas, therefore, have had to resort to their reserves, thus putting their future financial resilience in jeopardy in the event of large-scale financial shocks.

Service deficits

Local authorities are facing estimated deficits in their Special Educational Needs and Disabilities (SEND) budgets of £1.9bn in March 2022, projected to rise to £3.6bn by 2025. A related issue is Home to School Transport (HTST), where costs have risen 33 percent in the five years to 2021/2 and have been particularly challenging in counties where that increase has grown disproportionately given their geographies and the longer distances.

In terms of Adult Social Care, whilst the government's plans for social care reform were welcome, the delay to the implementation of the charging reform is allowing local authorities to properly prepare. However, the system and any reforms must have the right funding settlement. It is obviously welcome that the full £12bn in extra support will still be provided even though its original funding mechanism, the Health and Social Care Levy, was discontinued by the Truss government. In Surrey, though, the gap for ASC funding is expected to continue to rise, hitting £20m in 2023/24.This is due to increases in caseloads and in adult social care staff numbers needed to provide the care and support required. This financial gap could rise to as much as £380m by 2033.

Efficiencies and new funding

Clearly, these financial challenges are unsustainable and must be brought under control. This is why councils have embarked on sweeping transformation programmes that deliver both efficiencies and modernisation, while still maintaining quality services for residents. Over the past five years, Surrey County Council has delivered £276m of efficiencies, successfully filling the annual budget gap since 2018, increasing reserves to a sustainable level whilst maintaining financial resilience despite significant impact of the Covid-19 pandemic on financial pressures.

In addition, in December, the government unveiled a provisional settlement for local government that recognised these pressures and, in part at least, attempted to help councils. It saw an average increase in Core Spending Power (CSP) of 9.2 percent nationally. This increase in resources will go a significant way to easing the financial pressures facing councils next year but councils still face very tough budget decisions particularly post-2025.

Achieving this maximum increase in CSP is, for instance, reliant on councils raising council tax by five percent, the maximum increase permitted without needing to hold a referendum. Research by the County Councils Network found that 80 percent of its members currently propose to do just this. Additionally, while the average is rising nationally, there are still 12 county councils that are actually seeing below average increases in CSP.

It is regrettable that this is the case. Any council tax rise during the current cost-of-living crisis is a difficult choice but it is one most councils are seriously considering to ensure they can maintain vital frontline services to benefit their residents and businesses. This, however, is just a short-term fix and if the system of funding local government is going to be sustainable for the long-term, we can do more.

Council tax and business rates

As a starting point, we need to have a serious and non-partisan conversation about the future of council tax and business rates, both of which are based on antiquated valuations. This is especially important if the government is to continue to announce new funding for local government that simply empowers local authorities to increase council tax rates.

Producing a modernised tax system through reforms and re-ratings would ensure that taxation is based on (i) the ability to pay, (ii) a fair share of consumption of local services, and (iii) bringing in more revenue. It would also present a more accurate picture on where extra government support is required and ensure funding is allocated to areas where it will do the most good.

However, extra revenue from local taxation is only a start and the expected increase will not meet the full challenge or match across to local need. What is required is a more wide-ranging set of reforms to the way local government is perceived, what it is allowed to do and how it is empowered to fund itself.

Devolution

On devolution, robust and extensive County Deals are needed to help make the most of public spending efficiency. A more ambitious and accelerated programme to roll them out across the country would empower more local communities and authorities to deliver the desired and required services and amenities.

Currently, on average less than one percent of day-to-day public spending and less than five percent of capital spending is devolved from Whitehall, even in the case of mayoral combined authorities. Instead, most funding is piecemeal with competing criteria and allocations, which only leads to duplications and gaps. Millions are spent every year by councils applying for the various pots of funding, often with no guarantee that applications will be successful, money that could be better used investing in our communities.

In addition, the power to pool funding streams will give councils more strategic control to address local need with targeted solutions that cost the exchequer less, rather than centralised spending, which is unwieldy, difficult to monitor, and not sufficiently targeted. Recent experiences of funding allocated during the Covid-19 pandemic shows that local authorities are better placed to make decisions on targeted spending and where better outcomes can be achieved.

New taxes

Part of the conversation about devolution should also include consideration by government that local authorities need increased powers to open new revenue streams, such as new local taxation. It could also include further powers around economic development and skills, enabling areas to provide more attractive propositions for business investment and improve opportunities for the local workforce.

New taxes linked to local consumption and service utilisation, for example tourist levy, land value tax, or local VAT, could generate millions to meet rising budget pressures but also support service modernisation locally going forward. This would enable areas to become more self-sufficient and allow government to prioritise areas that really need central support.

These local taxes would be specifically earmarked for improvements to local services, from roads and high streets to parks and healthcare as well devolved to town and parish councils, which would then empower local residents to do more at the hyper-local level.

On social care

Any adult social care reforms that are proposed need to bring about fairness in the system and to go further to plan for an ever-expanding aging population and an increasingly complex set of needs from childhood to old age. This includes ensuring that there is a clear workforce strategy to encourage people into jobs in the sector, providing them with an adequate wage for skilled work and career progression.

The social care system cannot be the poor relation of health, pitted against the NHS for funding, as it is at present. Health and social care are complementary demands which residents rely on in equal measure during their lifetime and must be put on a sustainable financial footing.

Because income tax and council tax cannot generate the revenue to cover rising demand and the ambitions of reform, England should perhaps be looking at more radical options. For example, a national risk-pooling insurance model where everyone can start paying toward the inevitable need for care sometime in their lives. Modelled on the German system, this would create more fairness while ensuring sustainable universal provision.

On business partnership

As part of devolution and reform of Local Enterprise Partnerships, there needs to be a new partnership between business and government. This must be constructed to ensure that there is a system of support services which people can rely on, and which are diversified and balanced.

Government cannot be the only solution to problems, and more can be done with firms who realise that it's good business to work with staff to improve areas like mental health, obesity, and making greener consumption choices. Helping people make healthier choices and improving air quality, among other things, will give them longer, more productive, healthier lives.

To help make this a reality, councils and businesses need more delegated authority to create funded private-public partnerships on welfare, sustainability, and other areas, making the most of public funds as well as securing private money to support expanding demands. These partnerships can enable more integrated planning and strategy, give people more choice and deliver a better quality of life.

The challenges facing local government around funding are real, but they are solvable. What is required is the recognition of the vital role that councils play in supporting their local communities, that they are best placed to decide what is needed in their localities and for central government to share the load by devolution of more powers and responsibilities to local government.

FIVE

Courageous conversations and the future of local government taxes

BY MARK SANDFORD, SENIOR RESEARCHER, HOUSE OF COMMONS

In a letter to the Financial Times in January 2023, Chris Smith, the editor of *Public Finance*, suggested that local government finance in the UK was in need of “courageous conversations” as a prelude to reform, principally between the local government sector and the Treasury – but that ministers “won’t like what they would hear”.

The conventional expectation of this conversation is that the sector would make scattergun demands for more money, and more tax-raising powers. The Treasury would ask what those new powers would be used for, and express doubt that local authorities would be able to make robust spending decisions with either grant funding or locally raised money.

These stances have deep roots in what political scientists have called "the British political tradition" and the "Westminster model". Professor John Stewart identified the prevalence of "elite contempt" amongst civil servants in 1993; twenty years later, the Institute for Government noted the constant fear from Ministers that local councils "will 'do something barmy'". There have been signs of this stance thawing in recent years, mostly in the context of devolution deals. Given this political inheritance, their significance should not be underestimated.

The fiscal gap

And yet, a growing openness to the devolution of power from central government has not yet been matched in fiscal matters. Local authority representatives and think tanks often cite 'fiscal devolution' as an aspiration, but this is rarely fleshed out (the IFS's 2019 report Taking Control, and Localis's 2020 report Fiscal Devolution: adopting an international approach are rare exceptions). Sources occasionally suggest interest in fiscal devolution from the government: ministers are said to be interested in it as a route to strengthen accountability, and there exists a 'Fiscal Devolution Working Group' within government. But this interest has not translated into a comprehensive perspective on which fiscal powers could be made available to local authorities, and why. By contrast, the fit between fiscal devolution and devolved responsibilities was absolutely central to the Calman Commission, the foundation of the current fiscal system in Scotland.

The Commons Library recently published a briefing paper entitled Local government taxation which explains various forms of fiscal devolution in detail. Proposals for change would need to answer some fundamental questions. For instance, which tier(s) of government would administer a new tax? How would central grants take account of tax revenues? How would it interact with any new accountability framework for metro-mayors? Would it generate substantial or peripheral quantities of revenue, or would it focus on changing behaviour? Which areas would pay the most, and should any revenue be redistributed?

In this chapter I suggest a framework to address these questions with regard to England. First, potential reforms to property taxes: these would have little effect on overall funding levels, but any reforms would likely set the tone for further changes. Second, smaller taxes on specific sectors or behaviours: these raise peripheral amounts of revenue, vary by geography, and serve principally as policy tools. Third, assigned shares of national taxes, binding sub-national governments into economic outcomes (and potentially rewarding them for effective local policy). All of these changes could be made whilst raising minimal additional amounts of revenue overall – reflecting the wariness of imposing 'new taxes' acknowledged by the Shadow Chancellor of the Exchequer in January 2023.

Property taxation

English local authorities raise most of their local income from council tax and business rates. Both taxes are unpopular: the tax rates are perceived to be high, unrelated to the ability to pay, and difficult to appeal against. Both have seen recent proposals for reform, but this is one "courageous conversation" that few UK governments will want to have. Council tax on second homes and long-term empty homes has risen in recent years, and there have been calls for it to be extended to vacant land (applying it to unused planning permissions). Retail groups have argued for business rates to be rebalanced away from high streets and towards larger companies on business parks. Council tax in particular has seen multiple proposals for reform and revaluation. These have almost all sought to raise the same quantity of revenue overall, but in a more progressive way.

Greater localisation, or reform, of both of these taxes is normally linked to increasing local accountability and greater flexibility to react to local circumstances. But, over 30 years after the poll tax, they remain hugely sensitive. Their unpopularity means that there is no realistic prospect of using them to raise substantial extra revenue. Recent proposals for online sales taxes and vacant land taxes would contribute little in that regard.

This reminds us of the need to view tax systems as a whole. Most countries have local property taxes that are based on property values together with tax bands/ rates or 'multipliers', like council tax and business rates. But property taxes elsewhere can often be lower than those in England, because local authorities can supplement them with income from other local sources. One benefit of additional sources of revenue for local authorities would be to relieve the pressure on council tax and business rates, which do not have the flexibility or room for manoeuvre to shore up council finances single-handedly.

Levies

Levies permit the payer to do something specific. For instance, drivers of certain vehicles must pay low emission zone or congestion charging levies to enter many city centres. New commercial developments in many local authorities are charged a community infrastructure levy based on floorspace. Additional proposals of this kind include the transient visitor levy or 'tourist tax', currently under consideration in Scotland and Wales, and various approaches to 'land value capture', with tax increases in property values attributable to public investment in infrastructure.

These types of tax are different from property taxes, in that they are focused on specific activities or relate to specific sectors of the economy. For the most part they do not produce enough revenue to act as a core source of funding for public services. Furthermore, there is often pressure to ensure that revenues from these taxes are spent on the sector that pays them. In the UK, transport levy revenues must be spent on transport, and tourism tax revenues in other states often must be spent on tourism-related activities.

Levies frequently produce peripheral amounts of revenue. London raises some £400m per year in transport levies, but this pales alongside spending of £60bn by the whole of English local government. Or they may produce large sums in some locations but next to nothing elsewhere – a feature that they share with other sources of funding, like parking charges or commercial revenue from airports. That characteristic makes this type of tax unsuitable as a core funding source.

Levies can strengthen the business case for specific large-scale projects. Land value capture mechanisms paid a large part of the cost of the Northern Line extension to Nine Elms in south-west London, for instance. In Manchester and Liverpool, a 'tourism tax' of sorts is shortly to be introduced via a tourism-specific Business Improvement District (BID). The Liverpool one is expected to raise just under £1m per year, which will be spent within the BID area itself. But this highlights that these types of tax act as a policy tool first and a source of revenue second. Transient visitor levies cannot raise revenue in areas with few visitors and land value capture cannot raise revenue where land has no potential to increase in value.

Shared taxes

In some countries in Europe and elsewhere, local authorities share in national tax revenues. Tax sharing systems typically apply to taxes that bring in substantial revenue, such as income tax, corporation tax and VAT (or their equivalents). These systems can work differently, and this has an effect on the outcomes and the incentives that local authorities face. For instance, local authorities might receive a share of the income tax paid in their area or the revenue might go to the sector as a whole and then be redistributed according to a measure of need. In a country like England, which has significant regional inequalities, it seems likely that some redistribution between areas of revenue from these sources would be necessary. This could take the form of a needs assessment, or a system rewarding growth in revenue against a baseline could be used.

In some countries (such as Italy) regional and municipal councils can set a supplementary rate on shared taxes, within limits; in other countries (such as Germany) they cannot. Interestingly – contrary to what might be expected – tax competition between areas frequently appears minimal in this type of system. A guaranteed revenue stream, which is less easy to change than annual grants, may be the most valuable aspect of a shared tax system for a local authority. Revenues from taxes such as income tax, corporation tax and VAT could be substantial enough to bolster the core finances of local authorities – taking the pressure off property taxation.

Shared taxes would also take some of the heat out of perpetual clashes over grant funding. All local government funding systems include some form of central grants. Some grant funding is general, whilst some is ringfenced for specific purposes. England has always seen tension between the two, with central politicians frequently tempted to ringfence grants for specific services; education, health, fire, police, and latterly certain aspects of transport (the Potholes Fund) and social care (the Adult Social Care grant). However, ringfenced grant funding is less of a sore point for local authorities when it constitutes a smaller amount of spending.

The experience of fiscal devolution in Scotland and Wales suggests that a full parliamentary term would be required to establish shared tax systems. This would be a change that would go beyond local government, requiring a cross-government commitment to reworking UK fiscal structures.

Conclusion

A critical part of how any fiscal devolution reforms function in practice will be how the different elements interact with one another. Will local authorities gain substantial new revenue streams from new taxes? Will localities be able to retain tax revenues, or should funds be redistributed between areas? If the latter, how will local authorities be accountable for the funds that they raise? What effects will any future grant system have on the total funds available to local authorities? These issues concern how the local government finance system works as a whole, and it is "courageous conversations" regarding the system as a whole that governments have long shied away from.

SIX

The London Finance Commission one decade on – are we raising the capital?

BY PAUL HONEYBEN, STRATEGY DIRECTOR: LOCAL GOVERNMENT FINANCE & IMPROVEMENT, LONDON COUNCILS

A lot has changed since 2013. No-one had heard of Brexit or Covid-19, few people knew what net zero meant, and the term “levelling-up” had yet to be coined. Inflation was 2.6 percent, interest rates were at 0.5 percent, the average UK energy bill was £1,345, and the decade of austerity was just starting to bite.

Few of these era-defining issues could have been foreseen in 2013 when the then Mayor of London, Boris Johnson, commissioned Professor Tony Travers to lead the London Finance Commission (LFC) to investigate funding arrangements in the capital. While the world has changed considerably since then, sadly local government funding has not.

The LFC 2013

The context for the LFC was seemingly inexorable growth in London, driven by the agglomeration of financial and professional services concentrated in central London, with Crossrail promising to deliver even better transport connectivity (by 2017!) and the population forecast, at the time, to grow to 9 million by 2020 and 10 million by 2030.

The Commission's headline finding that only 7 percent of the tax generated was retained in the capital compared with over 50 percent in New York, starkly demonstrated that London was a significant outlier compared with other world cities when it came to financial autonomy.

The Commission concluded that London's government (the 32 boroughs, City of London Corporation and the GLA) should be given greater freedom to determine and use the resources raised from taxpayers. Such reforms would increase accountability to residents and businesses. It was clear to stress that this was equally applicable to other UK cities.

Recommendations sought to stimulate investment in infrastructure, generate economic growth, encourage house building, and reduce ringfencing through a devolved single pot along "community budget" lines. Most notable was the recommendation to devolve the full suite of property taxes including council tax, business rates, stamp duty land tax, and others. This would increase the retained tax figures from 7 to (a still modest) 12 percent.

Importantly, proposals were designed such that, when introduced, the rest of the UK would not be put at a disadvantage, with any tax devolution met by a pound-for-pound reduction in grant funding.

This would require the Mayor and London borough leaders to create a more formal mechanism for handling any transfer of tax or spending powers, where both tiers of London's government would be represented. This would not preclude a particular tax being devolved wholly to the Mayor or to the boroughs but would require both tiers of government to agree the broad structure and its mode of operation.

The current Mayor, Sadiq Khan, reconvened the LFC in 2016. The final report in early 2017 went further by recommending assignment of a proportion of income tax and VAT, but only to fund other nationally run services were they to be devolved.

What progress has been made?

Ten years on from the first LFC, while there has been some progress towards the ambitious vision it set out, achievements have been disappointingly few and far between. Two, however, stand out.

The pan-London business rates pilots in 2018-19 and 2019-20, trialled 100 percent and 75 percent retention of business rates growth respectively, and demonstrated how all 34 London authorities could work collaboratively to take decisions over a joint pot of funding. It generated over £600m of additional funding and used the governance principles envisaged by the LFC, with voting arrangements that saw parity between the Mayor and the collective of borough Leaders.

It was hoped this would provide a steppingstone towards fuller devolution of business rates. However, the economic impact of the pandemic meant the pool, which continued in 2020-21 under non-pilot conditions, became financially unviable and was discontinued.

More recently, the kind of collaboration and multi-layered decision making envisaged by the LFC was again evident last year when London Councils and the GLA worked very closely to achieve a multi-layered plan for the UK Shared Prosperity Fund. This chose a distribution model reflecting London's needs, rather than the default formula prescribed by government, recognising some elements would be best spent at a pan-London level, some at a sub-regional level and some at the borough level.

What hasn't changed?

Sadly, much of the local government finance system remains unchanged and has become, if anything, more centralised, with the government (and Treasury) showing little appetite for reform. Central government largely determines each council's spending power, as well as the timetable for allocating resources.

Council tax now represents roughly three fifths of Core Spending Power – up from two fifths in 2013. Placing so much of the funding burden on a tax that hasn't been revalued for 30 years makes less and less sense. The tax effectively remains capped via the referendum principle, and since 2016-17 has become increasingly hypothecated to fund social care.

Councils have even less control over business rates. Central government still sets the national multiplier and 97 percent of reliefs awarded each year leaving councils with few levers to respond to local economic needs. Tinkering by successive Chancellors – and the recent trend of freezing rates since the pandemic - has added further complexity and blunted councils' incentive to grow the tax base, evidenced by £2bn of grant funding awarded nationally next year to compensate for historical decisions.

Despite these added complexities, the same rules apply within the business rates retention scheme as in 2013. With previous government ambitions to move to 100 percent retention now cancelled, councils are stuck with a 50 percent scheme that is a million miles from the genuine devolution proposed by the LFC which, because of failures to reform wider funding, many feel is unfair.

More broadly, there remain many ringfenced funding streams – increasingly within adult social care - with a range of centrally governed strings attached that cannot easily be combined to be spent on local priorities. This prevents truly joined-up and place-based approaches to service delivery. The unpopularity of central government's favoured "bidding pot" approach was evident in the reaction to its recent allocation of the Levelling Up Fund.

One other thing that hasn't changed is public opinion, which continues to support fiscal devolution in London. Over half (54 percent) of Londoners support transferring more powers over public spending to London, compared with just 16 percent who oppose. London businesses support greater powers to raise resources to fund additional community safety and policing (80 percent), and more freedoms to fund and build infrastructure (80 percent) and houses (78 percent)[1].

London's changing context

Many of the challenges that faced the capital in 2013 – housing affordability, air and noise pollution, congestion, youth violence - remain. But London's context is changing.

The 2021 census shows that London's population growth is now slowing, only reaching 8.8 million by 2021, and not projected to hit 10 million before 2040. It is too early to conclude whether the pandemic had a real or temporary impact but taking census data at face value suggests outer London saw higher population growth (9 percent vs 5 percent); more densification (9 percent vs 4 percent); and

1 https://www.londoncouncils.gov.uk/our-key-themes/economic-development/london-business-1000-survey/2019-london-business-1000

may have become more deprived than inner London since 2011. Homeownership levels reduced and the prevalence of renting increased in outer relative to inner London, and diversity - whether measured by country of birth, ethnicity, or prevalence of English speaking - showed rates increasing in outer relative to inner London[2].

The agglomeration model that provided the context for the LFC in 2013 seems to be changing to a more polycentric model of London with more economic and social diversity across boroughs and subregions. These changes also mean the rationale for increased local decision-making and multilevel governance espoused by the LFC has arguably never been stronger.

The pandemic exposed widening inequalities in the city, with a disproportionate rate of deaths amongst the poor, the unwell, those living in crowded, inadequate accommodation and Global Majority communities. In many cases, these were the same people, leading to the devastating concentration of health impacts in London.

At the same time, the pandemic highlighted both the limited efficacy of nationally mandated solutions and the necessity among local leadership of local knowledge. The successful delivery of services and support to communities and businesses provides a strong evidence base to underpin arguments for greater devolution: London boroughs showed what could be delivered when they were given sufficient funding and responsibilities to support local communities.

Room for optimism?

So, what prospect for fiscal devolution in 2023? There may be some glimmers of hope on the horizon.

The economic challenges facing the country mean the government and policy makers may be more likely to entertain more radical policies than in the last five to ten years, particularly those aimed to driving growth – which has been so stagnant in the last decade.

Last year's Levelling Up White Paper provided a set of long-term ambitions, through 12 Levelling Up missions with objectives to 2030. One of the aims within the twelfth mission is "for every area of the country to have a simplified long-term funding settlement" by 2030, and the government is considering single-pot place-based budgets for the two "trailblazer" areas of Greater Manchester and the West Midlands, which sound remarkably like those recommended in the LFC.

2 London Councils' analysis of Census 2021

London's devolution settlement is now over 20 years old. The focus on bringing other areas up to London's level risks limiting the ability of the boroughs and the Mayor to tackle the 21st century problems facing the capital. Hopefully, the nascent London work-strand within the Levelling Up Advisory Council represents an immediate opportunity.

The Labour party has also begun to set out policy priorities ahead of the next general election, through the Gordon Brown-led Commission on the UK's Future, which recommended "new fiscal powers" for local government, while the Leader of the Opposition's speech in early January promised to "devolve new powers over… how councils run their finances".

Whichever party forms the next government, it appears devolution is back on the agenda.

Conclusion

Reducing inequality, improving productivity, and fighting climate change are arguably the three pre-eminent policy challenges of the 2020s. These will not be achieved by simply doing what has been done before.

What is required is stable, long-term funding, more flexibilities over revenue raising, and greater devolution enabling councils to use their community knowledge whilst strengthening local accountability. This should be done alongside wider reform of the local government finance system.

While London and the UK have changed considerably since 2013, both the logic that underpinned the original LFC and the recommendations it put forward are just as valid today.

SEVEN

How can local government professionals rise to meet future challenges?

BY IAIN MURRAY, DIRECTOR OF PUBLIC FINANCIAL MANAGEMENT, CIPFA

When I was approached to write this piece my initial thought was “2030, that’s a long way off!”. Having started to think about the question in greater detail, I had the dawning realisation that it really wasn’t very far away at all. Through its Sustainable Development Goals (SDGs), the United Nations set humanity some ambitious goals about how the world should be different in 2030. Events during the first part of the current decade highlight the need for these changes but have also acted to hamper progress towards them.

Closer to home, there's an emerging sense we are approaching a series of watershed moments which could define the shape and nature of society in the United Kingdom. The UK is routinely presented as a divided country, with the Brexit vote in 2016 being the defining example of this division. Whether the UK is truly divided or not, there is an acknowledgment that inequities exist that need to be addressed. They hold back the overall prosperity of the country and impact on the quality of outcomes for some of the population in a way that should not be tolerated.

Both the government's levelling up agenda and the increased role for towns, cities and regions set out in the Labour Party's *Report of the commission on the UK's future* means devolution remains a significant opportunity in the future of public service delivery. The hope would be this renewed focus on place survives beyond the upcoming general election and goes hand in hand with a much-needed conversation on fiscal freedoms for local areas.

At the moment, many local services are funded centrally. The current government has exacerbated this by placing a burden on local areas to bid in piecemeal fashion for relatively small amounts of funding. Those elements of funding which are raised locally are also in need of at least reinvigoration, but preferably reinvention. The fair funding review and the rebasing of national non-domestic rates were paused during the pandemic. There is reluctance to reform council tax because of the impact it could have on bills for individual council taxpayers, particularly those on fixed incomes. These are understandable and laudable decisions, but they mean the funding for key local services increasingly fails to reflect the demands and needs of local populations and, perhaps more importantly, does not provide local areas with the scope, incentives or accountability to make long term decisions.

This is compounded by the current referendum cap on council tax that acts as a barrier to local discretion and accountability. Let us assume that the inadequacies inherent in the current local fiscal systems are addressed and local areas are allowed greater discretion to determine how they raise funds within their area. This presents a new challenge for those in finance roles in 2030. With these freedoms will come increased complexity and more accountability. Local decision makers will need to model a greater variety of scenarios and engage their populations with these in a way that currently does not need to happen.

As well as the potential for fiscal reform, by 2030 it is very likely we will see further structural reform of public services. In local government we continue to see reorganisation, with a move away from two tier county and district systems to unitary councils, an increase in combined authorities and the creation of the

Office for Local Government. So what might the next seven years hold for us in respect of further changes?

The 2021 census confirmed the population of the UK has continued to age with the average median age in England and Wales increasing from 39 in 2011 to 40 by 2021. The ONS projections for 2030 and 2045 show an increase in the number of people reaching pensionable age. This trajectory presents us with a series of challenges that, when oversimplified for our purposes here, can be boiled down to: what will it mean if less of our population is economically active? What will be the needs of an ageing population and how can these best be met? It strikes me that the aspiration to have people living healthier and longer lives should be front and centre of our policy agenda.

There are two aspects of this policy agenda one would hope to be part of future reform and will have significant impact on those of us working in public finance. There is a general sense services are focused on meeting the needs of our population when they reach their most acute phase and opportunities are not realised to identify and meet needs through preventive action. While broadly supported as a 'good idea', prevention is inherently a difficult sell for a number of reasons. The first is proving the absence of something is difficult to do, but proving that actions taken have resulted in the absence of something is even harder.

The long lead-in time required for these preventative interventions to have an impact on demand means the benefits from these investments are so far in the future they often won't have an effect on the political imperatives of the day. The demands on public services in the here and now are often so pressing that capacity and resource has to be focused on them at the expense of longer-term outcomes. By 2030 it will be essential we are able to better articulate the case for prevention, but we cannot wait for 2030 to bring about this change.

Technological developments have always been a catalyst for change in the world of finance. Whether the emergence of the abacus, the modern numerical system or papyrus, accountants have always been the beneficiaries of technological advances. The debits and credits first set out by Luca Picoli are now almost entirely automated by modern accounting systems. There are already examples in the world of public finance where machine learning and robotics are used to deliver efficiencies in the systems and processes which produce information. This has the benefit of allowing finance professionals to focus on how this information can be used to inform and make better decisions for the communities they serve. This trend is set to continue and with it will come an increased shift in the expectations of public finance practitioners to move beyond the ability to provide and interpret information to using it to design and solve problems.

The increase in the use of machine learning is a product of the increased digitisation of our existence. This impacts on almost all our interactions, including those with public services. As a society we are generating vast amounts of data, most of which is now captured by digital means. This, coupled with the increased processing power now available to us, means we can model the current and future needs of populations. As these models develop we may be able to predict how actions or interventions will impact on those needs. Along with the intuition and reasoning of public finance professionals, we might now be able to prove the absence of demand and the correlating actions.

Technology and data could provide us with the pathway to better articulation of the benefits that could be realised from a focus on prevention. If so, public finance professionals need to be at the forefront of a mindset that starts to break down many of the silos that are inherent in the way public services are delivered. Financial elements of decision making can often be characterised as the balance between costs and benefits. Often these questions are framed from the perspective of the organisation that is incurring the cost or making the investment. If the perceived benefits do not flow to the organisation then the financial case is lost. In a delivery landscape that is heavily siloed the benefit to the citizen can be easily lost.

I think as public finance professionals we need to encourage an analysis that asks "who benefits?" in the broadest possible terms. The analysis must also support the answer that should be "the citizen first, the organisation second."

Sustainability reporting is another opportunity for public financial professionals to demonstrate their value and lead the way. It is still in its relative infancy and the public sector is lagging behind our corporate cousins when it comes to external public reporting. While it would be easy to chastise ourselves for this, instead we should focus on the important role of finance professionals in readying their organisations for this change.

By 2030 it's inevitable annual reports will include large amounts of non-financial information that demonstrates the value an organisation creates. This opportunity is profound. A shift away from measuring only financial capital will allow for a better demonstration of the true value of public sector bodies and their impact. The systems, processes and controls used to create and assure the traditional measurement of financial capital are well established and have been in place in one form or another for millennia. The same cannot yet be said for those required for the information that will support sustainability reporting. We should remember the skills needed to design, operate, control and assure these kinds of systems and frameworks are those that are already the core part of the public finance professional's toolkit. While often misused, Drucker was right "If you can't measure it, you can't manage it." Maybe accountants really can help save the world!

Much will change and, like all professions, public finance will need to move with and adapt to change as it happens. Some of the changes that will take place in the next seven years will have a profound impact and one hopes this results in improvements for those in the profession and the citizens they serve. However, some things won't change, and neither should they. For public finance professionals, this means the key principles that underpin the way they approach their role. At CIPFA ,we set out these principles in our Statement of principles of good financial management, and I believe whatever the future holds these will still hold true.

They are:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, high quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

Although the future may be incredibly uncertain at the moment, we know that technology will have a significant role to play in it. Whatever that role is, the public finance professional will be key to harnessing its power to improve lives and outcomes.

EIGHT

Finding fiscal freedom – to deliver

BY CLLR. SAM CHAPMAN-ALLEN, CHAIRMAN, DISTRICT COUNCILS' NETWORK

District councils need freedom and certainty if their critical services - that promote good health and well-being and deliver housing and economic growth - are to continue on a sustainable footing.

Freedom is ultimately about greater fiscal autonomy: a wider range of sources of finance, including taxes and charges, which local councils set and retain, or which are automatically allocated to them without interference from central government.

This shouldn't be filed away in the "too difficult box". I'm proposing a practical set of proposals for fiscal freedom, which could easily be delivered across the lifetime of the next Parliament. There are some changes that shouldn't wait that long.

On the face of it, districts already have a high degree of fiscal autonomy. Council tax represents over 50 percent of net revenue expenditure, much higher than other types of tax. But it is the only tax controlled by councils and is heavily fettered by the referendum principles set each year by Parliament.

Democratically elected councillors should be accountable to the electorate for their decisions on council tax, in the same way as MPs in respect to national taxes. National tax decisions are not subject to referenda. Likewise councils should not be subject to blunt national tools that are tantamount to universal capping. It is highly unlikely that any referendum would result in a vote to approve a higher increase than is set out in referendum principles.

For several years, districts have been constrained to council tax increases which, at Band D, would be lucky to pay for a pint of beer across a year. We need to see referendum principles raised very significantly as a first step to removing referenda altogether.

We also need freedom for planning and licensing fees. They should be set locally so that councils can at least cover the costs of delivering these services. A well-resourced planning system is the best guarantee that councils will be able to plan for and secure housing and economic growth in ways that protect the environment, ensure well-designed developments and deliver levelling up far more effectively than bureaucratic bidding processes run from Whitehall. Government action to increase current fee levels should be a steppingstone to legislation to free councils to set the fees themselves.

Penalty charges for environmental and other offences should be increased, not only to provide a deterrent but also to ensure that a greater proportion of the cost of enforcement is covered.

Greater freedom to raise income should go hand in hand with greater freedom to decide how to spend income. To take just one example, district councils with off-street car parks face restrictions on the use of car parking income. It is time to trust councils to decide how any surplus will be used to support local services. It is not profit that goes to shareholders. Legislation should lift current restrictions, and governments should not be tempted to fetter existing powers to charge. Many districts make a surplus from providing collection of trade and garden waste and reinvest any surplus in other services.

How can we go further? In future, we need to see a wider basket of taxes and charges at the disposal of districts and other councils. In comparison with local government in most other parts of the world, councils in the UK have very limited fiscal autonomy. OECD data shows that the proportion of UK taxes raised at sub-national level is only 5.1 percent. This compares to 13.5 percent in France and 32.3 percent in Germany. It also shows that there has been very little change in the proportion of UK tax raised locally over the past 20 years[1]. In many countries, local government has the power to raise an array of local taxes and much greater discretion over how to spend the money than councils have in England[2].

District councils should have the ability to charge a supplement on second homes and should retain all the extra income to respond to their impact on local housing markets. There should be universal schemes for the licensing of private rented sector properties and short-term holiday lets, with the fees set and retained by district councils so that the costs of monitoring and enforcement are covered in full.

Legislation to introduce a tourist tax is long overdue. Such taxes are very common elsewhere in the world. The tax should be set and retained by districts in shire county areas – to fund additional costs associated with tourism such as litter and waste, but also to fund facilities and initiatives that benefit tourists and local businesses and residents alike.

Business taxes have always funded local services. Yet we're left with the worst of all worlds: an unpopular tax set by central government but collected by councils. We need to explore options for greater local control, not simply retention of growth, as well as options for a different base to the tax - whether it remains based on property or shifts to other measures such as turnover.

With freedom comes difference. As a nation, we are too concerned about variation and the "postcode lottery" – taxi licences, parking fees and council tax are just a few things that cost different amounts in different areas now. Greater fiscal autonomy will inevitably mean more variation, with local politicians accountable to local residents for the decisions that they take on how to strike the balance, rather than councils being constrained by out-moded and inefficient central control systems.

Freedom provides greater certainty to districts as they will control more of their

1 Source: OECD Tax Autonomy Indicators, 1995-2018, cited in the UK Onward report "Give Back Control" (2022), pages 16-19

2 For examples of international comparisons, see Professor Colin Copus, "Fiscal Devolution to English District Councils: Lessons from Overseas"(2020) Opportunities for fiscal devolution drawing on lessons from overseas – District Councils' Network

own financial destiny. But the government also needs to provide certainty through longer-term grant settlements, covering a minimum of three years ahead at any given time. We don't need legislation such as the NHS Funding Act 2020, which gave the NHS minimum total funding figures for four years. The government simply needs to run a proper forward-looking budget process every year – just as councils do - so that there is always a three-year run of figures for all services.

Government grant still has its place for districts primarily to equalise resources, recognising that not all areas have the same ability to raise income from taxes and charges, or that some areas face exceptional costs that lie outside their control. We recognise that some areas have low property values, constrained ability to grow housing because of tight boundaries or National Park/AONB restrictions, or a large proportion of remote rural communities to serve. Conversely, other areas serve compact urban areas or have high property values, plenty of land for development or large numbers of second homes.

Secondly, grant can incentivise outcomes. An incentive such as the new homes bonus should remain a feature of local government funding, with at least 80 percent going to district councils, to incentivise planning authorities to deliver housing growth, particularly in the absence of housing targets. It is not enough that they gain extra council tax income.

Finally, grant is required to meet the full cost of new requirements imposed by legislation or the government's administrative requirements, where that is not covered by any new charges or taxes being introduced as part of reform.

We also need to see the plethora of specific grants simplified. Ideally, they would be rolled into general grant. But, if not, there should be fewer funding streams in areas such as housing and homelessness and all grants should be distributed by formulae. It is time to end the cost and bureaucracy of competitive funding pots for councils and for the civil service. For example, all areas have levelling up needs, to a greater or lesser extent, and a formula could be devised to ensure those with the greatest needs receive the largest allocations of levelling up funding.

Without radical change to deliver freedom and certainty for district councils, they will face a growing struggle to invest in their people and places. The National Institute for Health Research has demonstrated how local authority budget cuts have a negative impact on local economies, cost lives, and contribute to falling life expectancy. Districts need to be able to play their part in ensuring that there is good quality, affordable housing to meet communities' needs; in improving health and well-being; in driving local economic growth; in reducing crime; and in undertaking preventative and early intervention activity, which shields the rest of the public sector, especially the NHS, from excessive demands. In short, districts need fiscal freedom and certainty in order successfully to level up their places.

We need clarity that this and future governments support these activities as the purpose and functions of district councils. Without fiscal freedom and certainty, then we will instead need an honest debate about what districts can realistically be expected to achieve if the current sub-optimal, constrained, and bureaucratic system of financing is maintained.

We recognise that funding formulae are out of date. While the fair funding review and business rates reset present risks to districts, the right thing to do is have up to date formulae and to maintain them. But we also need other things brought up to date. There should be council tax revaluation and – based on the Chancellor's point that people with the *broadest shoulders would bear the heaviest burden* - the introduction of more, higher bands for the most valuable houses. Legislation should devolve all reliefs to councils to decide including discounts and the council tax relief scheme for pensioners. If it is local government's tax, it is for local government to set and run – not Whitehall and Parliament.

The programme of changes I have outlined here would provide a funding system that is up-to-date and future proof. The changes could easily be implemented in the life of the next Parliament and action on some of them should start before then. Moreover, our programme need not cost the government a penny in extra grant. Give district councils freedom and certainty: they will deliver.

NINE

Bound together – the twin fates of local government finance and the net zero agenda

BY JOE FYANS, HEAD OF RESEARCH, LOCALIS

Contemplating what the financial situation of local government might be in 2030, I find myself thinking about what state our national ambition to decarbonise the economy will be in by that same year. From the vantage point of Localis, having conducted several studies in recent years on the role councils in achieving net zero, it appears that the future of local government finance and of the net zero mission are intricately entwined.

Put bluntly, the success of the net zero agenda depends on the ability to act at the local level, and the long-term survival of the planet depends on the success of the net zero agenda. Decarbonisation is an imperative, and a sustainable local government finance settlement is a prerequisite to meeting the challenge. The chance of a square deal for local government therefore hinges on the prospect of the UK getting very serious about net zero.

Net zero and local government in the 2020s

The outlook for net zero is by no means entirely negative: the UK was the first country to sign a decarbonisation target into law, the Climate Change Commission (CCC) remains a diligent and effective watchdog for net zero and departments across government are filled with civil servants and ministers who are working hard to drive carbon reduction within their own bailiwicks. What is missing, as the successful challenge to the Net Zero Strategy in the Supreme Court last year demonstrated, is a fully costed and quantified roadmap to a carbon neutral economy.

Both the political climate and the actual climate indicate to me that at some point in the near future, such a quantified roadmap, with a proper timeline and framework, will be forthcoming. There is no serious appetite in the general public for shirking the task of tackling global heating. Polling consistently shows that the idea of climate change as solely a concern for that *bete noir*, the liberal metropolitan elite, is mistaken and misguided. The manner in which the 'teal' independent candidates upended Australian centre-right politics in 2022 ought to be a cause for reflection. The continuation of extreme weather events as we have seen in recent years, due to the baked-in consequences of a slow response, will push climate deniers further to the fringes and increase the pressure for a detailed assessment of what is required from what sectors of society to achieve holistic decarbonisation.

What such an assessment will inevitably reveal is that the local state is woefully under-resourced to fulfil the plethora of obligations which a thorough net zero strategy will place upon it. In 2022, we completed an expansive study on local government's role in decarbonisation, supported by the District Council's Network, the Unitary Councils Network and Local Partnerships. The research involved receiving input from a great deal of council officers on their efforts to hit net zero in their area, alongside many discussions with central government officials and industry experts. The final report looked at the barriers and opportunities for local government across five key sectors of the economy, ranging from the built environment to land management, covering a wide variety of case study examples from up and down the country. Yet despite the broad approach, the same two requests of central government were made time and again – sustainable funding and long-term policy vision. The Supreme Court's verdict that the Net Zero Strategy fails to give enough detail provides an opportunity to push for both.

Burning platforms

We essentially are standing across two burning platforms. One is a climate change agenda which struggles to keep pace with an ever-increasing threat, perpetuated by its own feebleness. The other is a system of local government which is evermore fiscally constrained by demographic pressures and the legacy of austerity, even as the tide of funding from central government seems finally to be turning.

This is not to suggest that local or central government are not making strides. There are myriad funds to be accessed across different sectors, with various targets to be worked towards and initiatives like the Local Net Zero Forums showing willing from central government to engage with the local element of decarbonisation. Councils are also being creative in finding innovative ways to unlock finance, looking to crack on with the task using the resources they have rather than simply wait for more to manifest. London Councils, Core Cities and the Connected Places Catapult have launched the 3Ci initiative with BEIS support, looking to identify what is required of our cities are and how long-term investment can be secured to meet this demand. County councils up and down the country have made strides in decarbonising their own estates and working with district partners and local business to identify pathways to net zero. District councils working with the most restricted budgets of all local authorities, particularly in rural areas, have taken steps to create capacity in planning and housing departments for the major shift required.

What is missing, however, is the kind of sustained funding for local authorities that a sober appraisal of the task ahead would indicate is necessary. Even from a staunchly localist position, it is clear that this is not the time to let a thousand flowers bloom. There are a finite amount of resources in the country – labour, materials, organisations – and how we both utilise that which exists and build up more where there is shortage, in a way which maximises carbon reduction, is a strategic infrastructural challenge as great as any which this country has seen.

This is why I think advocates for a net zero strategy that passes muster with our Climate Change Act obligations and advocates for a sustainable local government finance settlement are fighting the same battle. A genuine net zero roadmap will require the stabilisation of local government through long-term provisioning. Getting serious about the one requires getting serious about the other.

Conclusion: changing gear

A wholesale shift is required, from individual departmental initiatives within central government which have a local authority delivery element, to decarbonisation requirements as a core component of council funding. The specifics of such a line of expenditure would not be easy to determine, and would likely require variation depending on local capacity to raise funds and the priorities outlined in the net zero roadmap. This is part and parcel, however, with net zero switching from a policy ambition to a proportionate response to existential threat – it should be seen as a problem as challenging as funding the NHS or the military, with tough choices and (to draw from another essay in this collection) courageous conversations required.

Such a settlement would not need to be reached from a standing start. There is already extensive work on the role local government needs to play in decarbonisation, with credible attempts to ascertain the gap in financial and institutional capacity. Some of these are from within government departments like DLUHC and BEIS, the CCC has contributed greatly, alongside numerous publications from charities and think tanks such as ourselves. Most importantly, local leaders – both political and corporate – are well aware of the specific challenges that need to be overcome in their area and where there are shortfalls in their ability to do so. In the seven years to 2030, the successful future of both local government finance and the net zero target depend on their views being incorporated into a roadmap to decarbonisation which identifies and rectifies the gap in council capacity.

TEN

Parish power: the secret cog in the council finance wheel

BY JONATHAN OWEN, CHIEF EXECUTIVE, THE NATIONAL ASSOCIATION OF LOCAL COUNCILS

It is almost always the case that any discussion or debate about local government finance isn't really about local government finance at all. Because in short, it focusses on just one part of the local government family.

Namely the three hundred or so county, district, unitary, London borough and metropolitan boroughs that make up the principal council tier of local government in England. A number which is actually shrinking.

And the nations 10,000 (local) parish and town councils which make up the first, and most local, tier of local government, don't even get quietly whispered into the conversation. Despite their ranks they are actually growing in numbers every year.

One might argue this oversight can be forgiven due to the fact that local councils only equate to about 1.8% of council tax.

In 2022/23 the overall amount of council tax raised by principal councils is £33.8 billion. While for local councils it is £655 million. Although this is nine times the amount raised in 1989/90 of just £73 million.

And the average Band D council tax for a principal council is £1,930, compared to £76 for local councils. In 1989/90 the average community charge levied by a parish councils was just over £5.

Unfortunately, and far too often, the first tier of local government goes unnoticed and gets overlooked.

Despite the fact that local councils are existing and sustainable model of community power, local leadership and public service delivery. Which is already giving people a voice and putting pride in place through the provision of parks and open spaces, markets, support for high streets and town centres, community events and so much more.

And providing local leadership to take action on local and national priorities from climate change to the cost of living, loneliness to local services, and transport to town centres.

But it is also the case that local councils are changing fast.

They are spending more, with billions of pounds a year invested in local areas if you include their overall expenditure, asset base and time spent by their 100,000 councillors to make a change in their communities.

They are doing more, be that through devolution and taking on services from principal councils or tackling the big challenges we face such as climate change, the cost-of-living crisis, health and well-being and housing.

And more are being established, as over 40 new councils have been established in the last few years, including the country's largest parish council in Northampton with a population of around 120,000 people.

Their potential is simply vast, including doing even more, which is surely an open goal for helping a Conservative or Labour government deliver on a range of priorities be it crime and community safety, transport, broadband, local businesses, health inequality or pride in place.

So just where will the first tier of local government's finances be in 2030?

This annual report* by Councillor Jane Smith, chair of Flowers on the River Community Council to the annual community assembly in May 2030 provides one possible answer.

This is my latest annual report and financial statement to our residents, businesses and other partner organisations following the recent online elections for your community council.

These historic online elections, which followed the successful national pilots which we took part in back in 2026, together with the wholesale national restyling of parish councils to community councils over the last few years, has certainly increased participation and interest with a record number of candidates of all ages and backgrounds standing for election in May.

I understand that back in 1966, just 13% of councillors in the country were women, which increased to 40% a decade ago. I am proud to report that we are now a 50:50 council. And that a third of our councillors are under the age of 21.

And of course, since the landmark Levelling Up and Regeneration Act 2023 which heralded community councils being established across all of England and benefitting from a universal general power of competence, this community council is playing a full part in leading change and improving everyone's lives as the first tier of local government.

Supporting community-based health, local economic renewal and growth, affordable housing and local neighbourhood plans overseeing the retrofitting of local homes to deliver net zero and help tackle the climate emergency.

I wanted to mention just a few highlights from the last year.

Firstly, the financial saving from the move to online elections enabled us to reinvest this money in our Make A Change budget. This has been used to encourage more people to stand for election, support councillor training and development including the roll-out of new devices to all councillors and staff, cover any costs of attending meetings for councillors with a caring responsibility, and ensure we have the best possible technology to enable our hybrid council meetings.

Secondly, the continuation of the popular annual Coronation Day, which despite popular rumour, was not inspired by the Disney classic film Frozen, but instead the amazing response we had to our King's Coronation events back in 2023. This now well-established weekend long programme of community events, completely free of charge and fully-funded by the community council, are consistently the most commented on all our social media channels. And more residents than ever have *got involved by volunteering their time to help run things, building on the legacy of the Big Help Out. The Flowers Parkrun has been a particular beneficiary since the community council ran its Bring A Mate Out campaign. This led to an immediate doubling of the number of people helping out on a Saturday just by going along with a regular volunteer to see what is involved in helping run our regular and junior runs.*

Thirdly, the Flowers Church Community Hub continues to thrive as a multi-use facility, run as a partnership between the church, the community council, our health partners and the newly established community business. I'm sure the next share offer will enable even more residents to invest in this novel enterprise, which with help from the Plunkett Foundation, saw us save the shop, pub and post office and bring all these vital services and more literally under the one roof of the modern extension to the church hall. The solar panels now installed on all our community facilities including the hub are enabling us to run all these buildings at almost zero cost and help provide free electric vehicle charging at several sites which we plan to expand over the coming years.

And finally, I think we can all be proud of our community's two home grown Olympic heroes who built on their success in Paris with more medals in Los Angeles. The community council continues to use its general power of competence to provide small scale grant funding to individuals to help them achieve sporting success and inspire the next generation of youngsters in our community. The influx of visitors we have also seen as a result has been a boon to local shops and businesses.

I'm pleased that the new council has supported the results of the recent finance consultation and budgeting for real event, which I'm thrilled to say saw three quarters of all residents get involved. Of which 90% supported the increase in our precept. We have set an ambitious budget which will not only deliver our wide range of existing hyper local services, but also the following new innovative and forward-looking initiatives.

This year's share of the local business support grant will be used to fund five new apprentice teacher assistants and complete the expansion of the free WiFi network to the whole community.

The income from our local energy regeneration schemes including the Flowers Meadow heat source pump will be used to support the retrofitting of our last few homes to achieve net zero targets.

We will be using the latest instalment of the government's national renewal fund to complete the network of cycleways and green routes linking our open *spaces to Flowers Station and the electric bike hire scheme funded in part by the Infrastructure Levy.*

And our new community farm, orchard, wildflower meadow and woodland (including the planting of 6,000 trees, one for each resident) will also be funded by the enhanced Infrastructure Levy receipts we receive due to our neighbourhood development plan which allocated sites for new homes with a mix of tenures.

We will keep you informed of the delivery of these initiatives through real time phone and web updates and a full report in the annual governance return which now includes a wide range of information including a full assessment by our internal auditor accredited by the national internal audit forum.

And, of course, you can be reassured of our ongoing commitment to professionalism and good governance, as we will shortly be re-accredited by the National Association of Local Councils with a Quality Gold Award and we are looking forward to our first peer challenge facilitated by them with the help of the Local Government Association in the Autumn. Plus our popular and already impeccably attended training programme for councillors will now be mandatory for all councillors through new legislation, and this will continue to be delivered through our commitment to the national Civility and Respect Project.

I am immensely proud of what we have been able to achieve over the last year as a community council which is elected by you, which is here to serve you, and which is here working together with you. Thank you.

*This annual report is obviously fictitious but acknowledgment is given to Jonathan Flowers, the former chair of NALC's Improvement and Development Board, who also wrote a fictitious blog about a local council which provided the inspiration for this article.

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