

minutes

Date 19 May 2014
Time 11am to 1pm
Venue Council Chamber, CIPFA

In attendance

Commissioners

Darra Singh (Chair)
Anita Charlesworth
Alan Downey
Stephen Lewis
Jonathan Portes
Bridget Rosewell
Tony Travers

Apologies

Paul Gray
Stephen Hughes

Guests

Carolyn Downs, LGA
Michael Lockwood, LGA
Rob Whiteman, CIPFA

Secretariat

Alison Scott, CIPFA
Philip Mind, LGA
Julian Smith, CIPFA

Welcome and Introductions

Darra Singh, the Chair of the Commission, welcomed commissioners to the first meeting of the Independent Commission on Local Government Finance. He stressed the independence and impartiality of the commission, set up by the LGA and CIPFA, to bring forward proposals to reform the local government finance system to secure better outcomes for local communities and the country as a whole. Members of the Commission introduced themselves.

Introductory comments from Carolyn Downs, LGA and Rob Whiteman, CIPFA

Carolyn Downs thanked the commissioners for agreeing to join the Commission. The main financial issues of concern to LGA members included the unsustainable pressure in the system resulting from falling budgets and increased demand for

social care, the squeeze this caused on other services, the difficulty of balancing incentives in the system with funding different levels of service needs and the way new incentives in the system for growth and housing were not working everywhere. LGA analysis showed that even neighbouring authorities with strong connections could experience very different financial positions.

Rob Whiteman remarked that in the financial year 2016/17, some local councils could experience severe financial problems and would be unable to discharge their statutory duties. Local government has a strong financial track record and has been successful at making significant savings that may have been unachievable elsewhere in the public sector. Government also exerts central control over the system – for example through requirements for local referendum on Council Tax increases. A more devolved system is needed with greater local revenue raising powers – as an illustration London has control over 7% of its revenue, compared to New York City which enjoys control over 50%.

The Commission discussed its purpose and direction. It made the following key points:

- local government would genuinely govern and be more sustainable if it could raise more of its own funds. There are problems with existing local taxes – some people regarded these taxes as “dead” (although these should be viewed alongside issues with the wider taxation system as discussed by the Mirrlees Review¹). There are however different approaches to the sustainability of funding – some authorities favour increasing grant funding, others favour an incentives model
- if central government funds local government through grant it constrains the independence and choice local government can exercise about local services
- key principles are at stake. To achieve sustainable local government, as a form of government, it should determine its own desired outcomes. Self-funding seems a system more likely to give a confident, sustainable, constitutionally independent system of local government
- the policy around equalisation is central to the system. No other country has the “postcode lottery” debate. Whilst we expect to see large wealth and income differences between people in the UK, we still expect to see equal mortality rates, equal educational achievements and so forth. But given public expectations about the post-code lotteries and tolerance of differences in public service provision some measure of equalisation is necessary. The departure from full equalisation is relatively recent
- local government’s ability to raise its own finance could however be treated as a distinct subject from approaches to equalisation
- there are predictions about whether, as a result of falling grant and constraints on revenue raising, some authorities will find themselves unable to carry out their statutory duties. In such a situation, the courts may need to give a ruling, which could then see expectations of local government reduced in line with the resources available
- the efficiency of local government and wider public services within a fixed public spending ceiling is critical – local government has shown that it can drive out efficiencies
- local places should make their own decision about priorities. Housing and regeneration should be for local decision. The Commission should not assume growth and housing development would suit all areas

¹ Tax by design: the Mirrlees Review, Institute for Fiscal Studies, 2011

- a more devolved local government funding system could be the solution. But various obstacles exist. For example, the local government finance system is constrained by the control total set for Total Managed Expenditure and the wider limitations of the tax system
- the outcomes of housing, welfare, early intervention, total place, growth provide important tests for the system. But they should be a matter for local choice and decision. One approach would be for the Commission to pick a desired outcome and work out the changes to the system necessary to deliver it – on housing supply for example
- the London Finance Commission proposed the transfer of a whole range of property taxes. It found that there is general acceptance that the whole system is not working and something needs to be done, although not everyone sees tax devolution as the answer.

The Commission discussed making the case for its proposals:

- opinion polling to establish public awareness of how the local government finance system works, the local tax burden and services it provides for could be helpful in making the case for change
- the Commission needs to build a case for the urgency of the reforms it proposes exploring the risk in business as usual and the efficiency case for reform
- the rising cost of social care and expectations about entitlement created a financial risk for national government
- the Commission should balance short termism with long term delivery and develop a funding framework that strikes a balance between the two, in particular looking at what could be achieved in the next Parliament
- the scope of the Commission is across the UK. The principal focus would be England but its conclusions would have relevance for local government across the UK (although the model is closest in Wales). It should take evidence from across the UK. The result of the vote on Scottish independence could have implications for policy on devolution to local government in England
- the CIPFA and LGA Conferences in July 2014, ahead of the planned interim Commission proposals in Autumn 2014, would be important opportunities to hear views and engage with local government councillors and finance professionals
- the Commission's purpose is not to lobby for new money, but instead to push for a system that would work whatever the quantum of funding that is allocated to local services
- the Commission should be aware of the political parties' manifesto commitments concerning local government finance, for example "mansion tax" and business rates changes.

The Commission agreed to:

- propose revisions to the terms of reference to simplify them, focussing on the current finance system, a potential new system that enables better public services and encourages growth (what does good look like) and the practical options for reforming the finance system to get there
- develop key lines of enquiry on the finance system and test emerging options against the key challenges facing the nation and local communities of economic growth, housing supply, welfare that encourages people into

work and provides effective social protection, affordable health and social care, and early support to families and children. A revised set of terms of reference will be circulated via e-mail

- look at the LGA's and other opinion polling on local government at the next meeting and whether it need to Commission further polling on the finance system itself
- collate findings of previous Commissions in this area and to pull together existing polling (such as by the LGA, IPSOS and YouGov) and public opinion
- finalise the Call for Evidence at the next meeting, framed on a broad basis and encouraging a wide range of stakeholders to respond
- consider themed workshops in the autumn, such as on raising more income locally for councils and on equalisation, or other subjects to be agreed.

Future meetings schedule

25 June 2014, 1300-1500 confirmed

Likely to be confirmed – please hold

21 July 2014, 1300-1500

8 September 2014, 1300-1500

6 October 2014, 1300-1500

3 November 2014, 1300- 1500

1 December 2014, 1300-1500