

Local Government and Communities Committee
Call for Views on the Long-Term Financial Sustainability of Local Government
Submission from Professor James Mitchell and Professor Kenneth Gibb¹

Summary

Audit Scotland, for the Accounts Commission, reported (pp16-17) in March 2019² that (with our comments in brackets):

- Alongside increasingly complex delivery and partnership challenges local government in Scotland has faced real terms reductions in funding since 2013-14. National policy initiatives continue to make up an increasing share of local budgets [a feature across the UK is the long-term reduction in discretion over services/powers and financial control of a shrinking share of local government revenue].
- Nonetheless councils are making sensible medium-term financial plans regarding council tax increases and greater use of fees and charges and their reserves [but this still rests within an annual budgeting framework which constrains such planning].
- Demographic demands are changing too with expected growth in all councils for over 65s and with a third expecting an increase in under 15s. [Delivering effective health and care partnerships will be correspondingly more important].
- Variation in performance cannot be accounted for by context or finance [but that does not imply that structural reform to funding could not make significant potential improvements].

The introduction to the committee inquiry highlights that, since the 2008 financial crisis, total local government funding resources in Scotland have fallen in real terms – ie there is a fundamental question of absolute resourcing to be dealt with. We contend, however, that long term sustainability is also a question of the relationship between local and central government, incentive mechanisms but fundamentally about shifting the balance of autonomy, dependency and discretion to create more of a planned, risk-sharing environment, one which secures the delivery of services but also enables a context wherein councils can innovate and experiment in order to be more cost-effective, responsive and attuned to emerging local needs and demands. It is this latter theme that we focus on primarily.

¹ This paper is based on work we have done individually and together including work on the Local Governance Reform, for What Works Scotland on 'prevention' and for the Commission on Local Taxation.

² Local Government in Scotland: Challenges and Performance 2019 https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf

The Committee Inquiry terms of reference asks the following questions of evidence submissions:

1. What are the big medium-term (5-year) and longer-term (10+ year) financial challenges for Scottish local authorities?
2. How effectively are councils addressing these challenges? Do councils currently have all the powers they need to do so?
3. What *practical* steps should councils take, and what good practice should councils adopt, to plan for the medium and long-term and to anticipate financial risks? If you are a council answering this question, it would be helpful if you could clarify if you practice medium and long-term financial planning and outline briefly what form this takes.
4. What alternative models of planning for, and delivering, council services (for example, joint working initiatives) could help local authorities make efficiency savings and/or deliver better services?
5. Are there any other issues relating to the long-term sustainability of Scottish local government which you wish to bring to the attention of the Committee?

We think the annual evidence on local government presented by Audit Scotland does an excellent job of setting out the key issues relating to questions one and two above. We also add to this below by identifying fundamental structural weaknesses in how local government and its finances operate, raising challenges for us about both the ends of structural reform and of course how it is to be achieved and implemented. It is in that latter respect that we identify some ideas that suggest ways to contribute positively to the debates raised by questions 3 and 4 above.

Our central contention is that there is a need to reverse the long-term process of disempowering local government, increasing local discretion, greater use of joint and shared services, multi-year funding agreements linked to spending review period, not only the reform of council tax and non-domestic rates but also serious analysis of additional local taxes bringing Scottish local government in line with other countries outside the UK. We should also consider a plan to gradually increase the local share of revenue raised and to ensure that regular revaluation becomes locked into the system. Local finance reform should be linked to broader reforms of local governance. These proposals are fundamentally about empowerment, connecting services and the fundamental relationship between the distribution of powers and services between Holyrood and local government.

Key Points

1. We would stress at the outset the importance of viewing **service provision as a shared responsibility**. Questions that focus on what local government should do to meet future challenges must recognise the interdependence of central and local government. Much that needs to be addressed lies within the competence of the Scottish Government.

2. In 2010, the former Auditor General warned we faced a '**long hard financial winter, which will require very difficult choices to be made**'. Spring still seems a long way off. Added to this, increased demand for services with an aging population allied with laudable ambitions to improve services including empowering local communities and neighbourhoods create added pressures.
3. Commitment to the **Christie principles are being stymied** by the failure to address the question of capabilities at local level to deliver.
4. Over a long period of time, **local government has been disempowered** leaving it with limited capacity or competence to address future challenges. A fundamental reform to reverse the process of centralisation will be necessary to meet these challenges. There has been a **narrowing of discretion** both in terms of services and functions but also in terms of local autonomy. The latter can be summarized by the shrinking proportion of total revenue which is raised locally and the degree to which local government has discretion over the setting of the local tax rates that households and businesses would be liable for.
5. **Scottish Government faces a choice**: it must reverse these trends and give local government more financial autonomy to raise its own revenue, provide the necessary funding itself or some combination.
6. A key shift is required in how we understand local governance. The dominant perspective informing too much policy is one that views local government as a discrete 'level' rather than viewing public services as provided within an interdependent system of interlocking parts. This results in a **Rubik's cube problem** where reform only works with one dimension at a time and in some cases reduces the effectiveness of the other parts of the system (e.g. finance changes impact on services and functions). We require more explicitly systems thinking around interdependence, complexity and incentive structures. This is especially true of tackling wicked problems. Current thinking leads to inertia which has cumulatively over time proved a deadening force on potential reform. A **more incremental but well defined approach** to reform is required, for example, we need to think about financial reform as staged over 10 years expanding the local sources of revenue of expanding the number of local taxes that can be used and introducing council tax reform (or, more radically, alternatives to the council tax) on a staged basis.
7. We see the need for **immediate action**, well within five years, to address many challenges but with longer term objectives including, with respect to a ten-year plan, to **increase to 50% the share of local government income raised locally** as advocated by the 2014 Commission on Strengthening Local Democracy.
8. The **adequacy, robustness and flexibility associated with grant-in-aid** requires attention. The effectiveness and stability over the course of a

Parliament requires attention. Consideration should be given to the reliance on whether the incentive mechanisms and the reliance on need, driving grant allocation alongside population, are the best ways for grant allocation. A sustained enquiry into alternatives to and ways of refining the existing grant allocation mechanism would be useful.

9. More immediately, the problem of **annuality versus multi-year funding** should be addressed. Because of the increasing reliance on grant aid, and the annual political challenges to the local tax rate increases, it is increasingly apparent that funding should be settled on a multi-year term and indeed possibly over an entire parliament. The aim could be to connect local government funding settlements to spending review planning periods.
10. A related funding issue concerns **reserves**. Many councils have run their reserves down as far as they can especially when council tax was frozen. During the local tax commission enquiry there was considerable concern about the dwindling position of reserves which, essentially, is a symptom of the underlying local government finance system.
11. The need to **reform council tax** has become urgent. This issue and others raised by in the 2015 Local Tax Commission remain to be addressed. The changes that were made after the 2016 election are inherently cosmetic and do not address the fundamental issues of revaluation, the importance of having a progressive property tax and also **widening the tax base**. Discussion of the tourist tax, workplace car parking, etc. are important but should not be seen as alternatives to but supplement reform of the council tax.
12. Consideration needs to be given to the **more effective use of nondomestic property taxes** and whether there should be a return to local rate setting and whether revenues should be retained completely in the local area (also stripping away complex overlapping reliefs, etc.). The further question of the greater, enhanced or more strategic use of fees and charges by local government needs consideration including their distributional profile.
13. There has been limited progress in shared services and there needs to be consideration as to how to **incentivize greater collaboration, integration and joint working** across public services both horizontally and vertically ie between local authorities but also between central government and local government. There are financial savings as well as improved service provision to be gained from abandoning the constraints of silo working. However, we see few advantages in a major restructuring of local government and these are far outweighed by the costs.
14. The culture of centralization has inhibited **experimentation and innovation**. Creating a more permissive environment for local government involves some risks on the part of central government, but we view this as a necessary

component of making a shift towards greater decentralisation of financial autonomy and that those **risks must be shared** and involve greater responsibility and accountability for local government.

15. **Local government has shown a capacity to innovate in contributing to the public good.** Despite concerns that it had been over 30 years since councils engaged in major house building programmes, local authorities have shown they are capable of delivering innovative infrastructure and other investment projects. Councils have built more than a thousand units a year of general needs council housing funded by grant and public borrowing paid for by rents. The gains of experimentation and innovation was evidenced by giving councils greater autonomy and the space to experiment and innovate so that we can all learn from those successful experiments.

Prof James Mitchell (University of Edinburgh)
Prof Kenneth Gibb (University of Glasgow)

22 August 2019