

# Local Government Finance review needs to be objective, open and inclusive

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The finance settlement ended up being an act in three parts. The opening of the first part involved a dramatic “standing on heads” over council tax. The audacity of this opening section drew attention away from the overall distributive strategy that was played out in the second part.

But then came the final part, which involved awkward tactical manoeuvres partially to offset the worst losses from the bigger distributive strategy.

English local government is used to this three-part play. But no matter how experienced we get, we fall for it every time. That’s because we have to – we don’t control the stage.

The low degree of autonomy that local government has in England is shocking – we’re just used to it! Consider the issue of council tax. As the country went into a deep recession in 2008 it was sensible to keep a lid on council tax rises. But arguably this went on for too long. This became a “non-discussable” topic within local government because the option was made irrational through the way in which central government financial controls applied.

If very modest council tax rises had begun three years ago, English local government may not have been in such fiscal peril by the end of 2015.

And so after five years of tightening the screw on urban councils particularly in the north, and favouring district councils over counties (in the new homes bonus allocations), the financing arrangements for English local government was getting close to bust.

Councils’ discussions with their auditors were focused not on accounting technicalities but on their “going concern” judgments because of several months of “stress testing” the financial health of council budgets, several auditors were beginning to fear that many councils could not survive in budgetary terms. Thankfully, the settlement dampens the profile of the service cuts even if it means they cannot be avoided.

Any review of how local government should be funded needs to be comprehensive and thorough and, above all, related to the functions that local government has to perform. There are broadly three sets of service functions.

First are those services for people in acute and critical need (adults in need of personal care and children in need of safeguarding) – that’s about 3% of the population in any area.

Second are those services that are common good services (environment) or that support the social and community life of a place (culture, etc).

And third are those investments and services that enable the local economy to thrive and prosper. However, it is the first of these that dominate local government spending (it is already over 70% of total spend in some councils).

It's easy to think that needs from one area don't leak into other neighbouring areas; it's easier still to think that once money is allocated to one area that ultimately it benefits the people in that area. But in England that simply ain't so.

There are considerable leakage and spillover effects from one local area to another. These effects are most obvious when we focus on economic growth and employment. But this also affects a large proportion of service users.

Consider how we should fund the costs of looked-after children. About 43% of all spending on children's social care across England is on the direct cost of children in care. Should the funding follow the child? Should the funding reflect underlying patterns of demand? Should the funding be linked to the nature and quality of practice in an area? What exactly is the practice that is to be incentivised through any funding mechanism?

At the end of March 2015, there were nearly 70,000 children in the care of councils in England. There is obvious variation in the underlying pattern of children being taken into care. The council with the lowest numbers of children in care was Wokingham BC with 75, while Kent CC had the largest number at 1,870.

Across England six in every 1,000 children are in care. And despite having such large numbers in care, the rate for Kent is actually just below the England average; while the rate for Wokingham is again the lowest, with two in every 1,000.

The locality with the highest rate of children in care is Blackpool Council, with 16 in every 1,000. I suspect that in the case of Wokingham and Blackpool, this stark difference arises more from the pattern of underlying need than the differences in practice in taking children into care. It would be false to conclude that children are eight times more likely to be taken into care in Blackpool than in Wokingham. Much more likely, there will be some aspects of the socioeconomic circumstances of families in Blackpool that render their children more at risk.

This is the challenge of finding a fair approach to funding. And it is why the next step for the Department for Communities & Local Government is the most important.

The extended offer of a four year settlement on the revenue side can only work if it is accompanied by a soundly based needs-based review that Greg Clark has started. This review needs to be objective, open and inclusive.

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