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Comments on the Consultation Paper, "A New Tax for Local
Government"
Department of the Environment April 1991

The consultation paper sets out the Government's proposal for a new council tax in 1993-94, that is to say after the next election. There is separate consultation on the proposed structure of local government and both purport to be part of a general review of the relationship of central and local government in England, Scotland and Wales.

There is widespread concern that the Government's financial arrangements are simply expedients, narrowly conceived, to overcome the community charge (poll tax) disaster; that the timing and nature of the exercise is over-influenced by short term political objectives; that our last state may be worse than our first.

Specific matters attracting critical expert opinion include

- A poor relationship between market valuation (as understood by most people) and arbitrary or "rough and ready" valuation proposals. This will lead to constant and costly challenge, problems of collection and charges of unfairness.
- The small percentage of local budgets raised by the proposed tax. Expenditure above grant levels will continue to invoke distortions of punitive "gearing", widespread capping and a cumulative loss of accountability.
- Complicated and costly interim arrangements exacerbated by a period of piecemeal and separate structural reforms.

Expert opinion rightly concentrates on these and similar details. Without prejudice to that debate the purpose of this short layman's note is to point to generalities emerging in central and local government relationships that have a bearing on all such details.....

1. "Buffer" or "Enabler" Roles: Which?
2. Perversions of Formula-led Diktat: Importance of Bidding.
3. Essential Treasury Innovations: When?

1. "Buffer" or "Enabler" Roles?

1.1 The local taxation consultation paper is rather myopic; there is no appraisal of the scope of local services to be financed or the volume of expenditures involved: an unusual omission.

1.2 Moreover no reference is made to the fact that Whitehall is already responsible for financing the bulk of local services in some local authorities; services supported by central grants or directly administered by central government departments or by their agents. This distorts reality.

1.3 Elsewhere the Government appear to take the view that this complex network of agencies, trusts, associations, corporations and other quangos is itself a way of "decentralising" local services. But the fact remains that they are all largely financed by the taxpayer.

1.4 For example, there is the above concern that local councils now only determine from 10% to 14% of their revenue. But if we then add into the sum the budgets of the central agencies delivering local life-support services such as housing, health, education and welfare, the percentage of overall local budgets raised and determined by some local authorities can drop to as little as 3% or 4%.

1.5 It follows that the consultation paper's points about the accountability of local services are falsely focussed on a tiny part of the action. It follows too, that accountability for financing well over 90% of local action in many urban areas must rest where it falls, with ministers.

1.6 And yet no Whitehall department attempts to assess the total amount of public money spent on fragmented local services in any one area - still less the impact. On the rare occasion when Whitehall gives evidence to the Public Accounts Committee on this point the figures are either "guesstimates" - or simply plain wrong.

1.7 The Government might agree that this adds up to an unrealistic approach to local accountability. It can also foster confusion and waste where separate central government agencies attempt to deliver similar services - or even the same service - in a single area, or even the same street: the "inner city syndrome"!

1.8 What then is the purpose of a local council tax which does not and cannot account for the bulk of local services in many areas and which, in any event, is itself effectively

determined by the central Government? One suspects it can no longer have much effective purpose - except to preserve an illusion of local accountability and so act as a "BUFFER" between ministers and their responsibility for services.

1.9 Elsewhere (the "Structure" consultation paper) the Government continue to stress the role of local authorities as "ENABLERS". This is useful. But the first rule of public policy is to find out what is actually happening.

1.10 And so local authorities should themselves be enabled to monitor expenditures on local services in their areas - whether or not the local authority has a direct executive role in paying for those public services.

1.11 Some such innovation is crucial for effective public procurement policies. But it faces two traditional difficulties. Firstly, local authorities have understandably shown little or no interest in services outside their own "fiefdoms"; i.e., outside their direct executive control.

1.12 Secondly, although the Government continue to expect local authorities to routinely publish information, Whitehall departments are often reluctant - and sometimes refuse - to release details of their own local services. Both these traditional attitudes need to be broken down.

2. Perversions of Formula-led Diktat and the Importance of Bidding.

2.1 Many of the above problems originated in Governments' now habitual misuse of general revenue grants. The initial purpose of such grants was to enable a standard level of service for similar costs, using formulae which are able to reflect the varying needs and resources of authorities.

2.2 Each year there were problems with formulae, each year there were adjustments. Each year successive Governments manipulated the system for purely political ends. But overall it worked well enough.

2.3 Four factors contributed to our present difficulties. Firstly, successive Governments expected the grant formulae to cover too many circumstances (e.g., "every little old woman"). Secondly, no coherent system emerged for handling unusual (or "lumpy") expenditures outside this general grant mechanism - and these exceptional tasks multiplied in modern urban Britain.

2.4 Thirdly, the eventual extension of such grant mechanisms - with all their inherent faults - as the key

instrument for actual budgetary control was a fatal technical error. And fourthly, the simultaneous trend towards more central finance (everywhere in Europe) left Government dependent on a spurious technology and no rational means for balancing local initiatives and central control.

2.5 The result is a near total mess! It was of course exacerbated by simplistic notions (such as the Poll Tax!). And, as we should now begin to understand, it cannot be alleviated and can only become more intractable if Government rely on further "hit and miss" reforms which do not address the overall weaknesses.

2.6 Over the past two decades I have discussed reforms with a number of Environmental Secretaries (1). The common feature of these proposals was a coherent framework within which local authorities (and indeed other environmental agencies) could bid for supplementary resources beyond a certain threshold. This frankly recognised the limitations of formulae driven systems by using them solely for the mass of more or less routine expenditures.

2.7 Proposals allowed for an expression of exceptional needs (or tasks) which could not be accommodated in any formulae without unacceptable distortions. In a sense this merely formalised the growth of many of our specific grants which rose from £ 131m. in 1968 (9.3% of total grant) to £ 2,782m. in 1986 (22.5% of total grant) (2).

2.8 These specific grants multiplied in ad hoc profusion, reflecting the diverse priorities of separate Whitehall departments at varying times. Similar special purpose finance always by-passed local authorities; for example the new towns. But by-passing elected councils became common: institution substitution not institution building became the rule. The result is the present proliferation of appointed agencies administering local services in a thoroughly fragmented and unaccountable way.

2.9 There is a further casualty. Much of this fragmented "special purpose finance" (which we sought to regularise) was an inherent expression of Government priorities. It typically spoke to the strategic responsibilities of central and local governments.

2.10 But without a clear expression of strategic funding there cannot be effective strategic functions and - at base - this is why the UK has always lacked a systematic approach to strategic responsibilities for large-scale services, planning and transport.

2.11 Ostensibly the present Environmental Secretary appeared to favour such an approach before he joined the Government

last year:

McConaghy: Would you not agree that all interventions become more important if Governments continue to reduce the revenue support grant for general or routine tasks?

Heseltine: My approach is quite different. We should diminish the significance of the formula money and increase the significance of overt bids for money.

McConaghy: Are you suggesting, then, that all local budgets would be part of the new bidding process?

Heseltine: Yes. Instead of the big spending departments in Whitehall each concentrating on their own bit, the local community will submit an overall local plan." (Local Government News, April, 1990).

2.12 What then are the difficulties of proceeding in this way? There seem to be two main problems. The first is that Whitehall has not developed any systematic approach to deciding what is a good bid and what is not - whether from local authorities or any other agencies.

3. Essential Treasury Innovations: When?

3.1 The second problem is a bit more difficult. The Treasury's central planning system remains largely an annual aspatial budgetary sum and the territorial implications of distributive policies are not an overt part of that sum. Negotiations with spending departments - and the Department of the Environment is merely one - are generally on a bilateral basis and mainly concerned with aggregates, continuous budgeting and consequent "top-down planning".

3.2 None of these central arrangements is compatible with definitions of systematic "strategic funding" or, consequently, with effective bidding for strategic funds in any part of the system. So an effective collaborative framework does not exist.

3.3 This centrality has stimulated a public interest in wider "decentralisation" measures of one sort or another. The constitutional implications are beyond the scope of this note but they are somewhat of a digression if central management remains almost exclusively an annual aspatial budgetary sum.

3.4 There is a further digression. Many commentators argue that the UK is alone among the major Community countries in retaining, and consolidating, its centralised system. This is rather misleading - as are many of the "decentralisation" experiments attempted in Community countries from time to

time. Obviously circumstances vary considerably but most Community Finance Ministers find ways of exercising effective central control - one way or another.

3.5 Moreover no Community country really believes that new forms of local finance will (like the cavalry in the twelfth reel) save the day for traditional local government! Most European countries know that, beyond all the rhetoric, central budget-making remains too important to decentralise. The hard fact is that Community countries and the whole of Europe continues to centralise at a pace which puts fresh demands on all political cultures.

3.6 It is all of a piece. As Mr Heseltine has admitted; "Realism is not just about local government; it is about the economy at large. The natives may be getting restless in the constituencies, but the gnomes in Zurich are not dozing either"(3). The Treasury must know, too, that the most successful European economies depend on a collaborative framework of debate with industry and also with their subservient levels of government - a framework incorporating a significant degree of fiscal co-ordination and joint resource planning.

3.7 Only marginal changes may be needed in present Whitehall accounting procedures (including PESC) to allow an overt expression of priority public investments and their distributional effects; marginal changes that could add an effective "constituency dimension" to the Treasury's central planning mechanism.

3.8 This is the only correct setting for a Local Government Review which may carry us into Europe and the year 2,000. As in German unification and European unification, the future of our economies and distributive politics is now on the line. Both can go either way! Local government finance must finally find its place within the management of our modern economies because it is a crucial element of distributional politics - on which the future of European democracy depends.

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Notes:

(1) For example, Peter Walker, Tony Crosland, Peter Shaw, Michael Heseltine.

(2) Quoted in Tony Travers, *The Politics of Local Finance*, Allen & Unwin, 1986, p 214.

(3) Michael Heseltine, *The Times*, 10 April 1990.