



The Conservatives' Control shift green paper outlined their policies on localism

The long road to localism

Reform of council finance remains a taboo subject in Westminster. **Tom Shakespeare** explains how the Conservatives could implement the needed reform without triggering a poll tax-style backlash

The impact of not reforming local government funding is likely to cause more damage to the UK economy in the medium to long term than the recession or large-scale public sector cuts. If this or any future administration is serious about localism, then it must set council funding free from Whitehall in favour of more independence.

Yet talk of reform of the funding system has reached stalemate. It is a politically toxic subject. Ever since the poll tax fiasco of the early 1990s and the subsequent fudge into council tax, the current funding system has been woefully inadequate.

There seems to be little appetite for reform from any of the three major parties. Even the Liberal Democrats have scrapped their local income tax policy. Both Labour and Conservative governments have consistently postponed any revaluation of house prices for fear of the damage it will do to their ratings in the polls.

The dependence on a single, highly visible tax, combined with no constitutional settlement, has left local government highly susceptible to the march of centralism.

Even among experts, there is no consensus about the best way forward. Some argue for local income tax, others for a more pure land tax, or a sales tax, and others for a combination of taxes. Frank Layfield's landmark 1976 report made the case for a more broadly based taxation system related to the ability to pay. Needless to say, most of the recommendations were ignored. The more recent

Lyons' report was more modest in its ambition, making the case for reform of the council tax bands and favouring marginal incentives for encouraging business growth.

The importance of clear local responsibility and discretion over services should not be understated. But there is a question over what should come first. The preferable option is that both financial freedom and discretion over services should come in what Simon Jenkins called 'a big bang' in his 2004 Localis report. However, the reality is that no future government is likely to be so bold.

What is needed is a clear route to achieving both outcomes. However, a lack of consensus combined with political sensitivity makes the issue unlikely to appear at the top of any party's to-do list at the next general election.

Localis has long supported the need to redress the balance of funding and to provide councils with access to a basket of taxes. We believe that this has become imperative, given the fundamental problems the public sector and the economy are facing. And with all parties supporting the principle of localism in theory, a solution to this conundrum has never had such a wide audience.

We believe that there is a politically feasible way to take this forward.

The first step is to constitutionally underpin a balance of funding in favour of all councils. This would mean a direct allocation of a range of taxes to local government.

We are working on a model that would show that it is possible to create a system

whereby every council could match its annual income through assigning varying proportions of a number of taxes, including business rates, income tax, VAT, stamp duty and vehicle excise duty directly to the council. The authority would also be able to choose the different proportions of taxes that it would like. Councils will gradually be given powers to vary these rates where it is proven that there will be no negative economic distortions, thus arriving at a truly localised system.

The great advantage of this approach is that it lays the ground for a truly independent system of local government finance with buoyancy and gearing concerns allayed, but it also provides rewards for growth in each of the taxes. For example, if it were decided that 20% of all income tax collected in a local authority area should be assigned to the council, it would receive 20% of any change in the total amount of income tax collected.

The effect of ring-fenced grants and successive governments' obsessions with equalisation would be effectively solved by this approach. Mutually agreed spending commitments for local government would provide a short-term appeasement to central government. The question over the need for redistribution would therefore be minimised. Any emergency support could be achieved through a fund which all councils will contribute to in equal proportion.

Finally, concerns over the fairness of the council tax could be addressed by revisiting the Lyons' report, but also by thinking about other taxes, such as a pure land value rental tax. This could remove economic distortions and would be more equitable than the hybrid between property tax and a service charge which essentially makes up council tax.

This process to create an independent system of funding allows local and central government to arrive at an amicable solution for local control, matched with an extra say over central government services. It allows central government to phase in change, thus avoiding another poll tax debacle.

The question remains as to whether or not the main parties would be brave enough to take on this change.

A Conservative government after the next election is likely to emphasise policies which deal directly with the economic downturn and more visible public services. We hope that the fiscally prudent Tory policy to restrict council tax rises in the short term does not manifest itself in greater central control in the long term, and that David Cameron's commitment to localism is realised.

It does not require a brave government to implement this change, just one committed to localism. As long as the Conservatives commit sufficient thought and resources, we can be optimistic that their commitment to decentralisation could realise this most fundamental and radical change to the governance of the UK.

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