

# **Re-inventing Local Government**

**Competent, Powerful and Free**

**Policies for the Reform of  
Local Government in England**

**Policy Paper 30**





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# Summary

Liberal Democrats believe that many of the Government's proposals for reform of local government in England are flawed and incomplete. The Government has missed the opportunity to produce reforms which allow councils to become dynamic organisations, working in partnership with communities to achieve a local vision for the 21st Century. Instead, the Government has developed policies which reflect their obsession with central control and prescription.

The task of reconnecting local people with local democracy in England, of empowering local citizens, will not be served by the imposition of policies based on prescription by national government. We need to create, at a local level, a political and economic settlement which recognises, as a central principle, that power should flow up from the individual rather than down from the state. The Liberal Democrat vision for local government is of the 'powerful citizen', living in a strong community, and backed by enabling government. This requires 'active' citizenship, equipping local people with real power and the capacity to exercise it. This is a citizenship based on rights, but which carries with it responsibilities too.

To achieve this vision, a comprehensive constitutional settlement is necessary, creating a new federal structure of government. In keeping with the devolutionary reforms already enacted by the Government with Liberal Democrat support, we believe that a full constitutional settlement should be completed by 2005. It should include:

- A Written Constitution which codifies the reforms and sets out the federal, national, regional and local authority powers, responsibilities and obligations, and a Bill of Rights guaranteeing citizens' rights.
- A strong Freedom of Information Act conferring a public right of access to government information at *all* levels.
- A comprehensive network of community councils, based on natural communities, in all parts of the country, including London and other metropolitan areas.
- The Facilitation of elected Regional Assemblies in England which would take appropriate powers and responsibilities from Westminster. The demand for elected regional government will be stronger in some areas than others, therefore any change in the sub-regional structure of local government would require full debate and the consent of the people in the region.
- A fairer voting system for *all* elections. At a time when electoral arrangements for Westminster and electing MEPs are being debated and proportional systems are in place for the Scottish Parliament, and the Welsh and London Assemblies, it would be inappropriate if local government alone were to be left with First Past the Post.

## Reconnecting Local People with Local Democracy

Under successive Labour and Conservative administrations, central government has encroached on the powers of local government - limiting its ability to raise revenue, fragmenting its functions and constricting its role. The result has been a loss of purpose and a decline in local participation in the governance of local communities.

In order to reconnect local people with local democracy, Liberal Democrats suggest the following measures:

- A fairer voting system for local government using the Single Transferable vote, the holding of elections for an entire authority every four years, updating of voting practices and improved access for voters.
- Opening up the decision-making process, giving local people a sense of ownership over local decisions, including, where appropriate, use of advisory referenda to inform and shape policy.
- Enhancing innovation in local government by giving local government the constitutional *power of general competence*, allowing councils to vary democratic structures to suit their local needs and encouraging councils to investigate forms of best practice pioneered in other localities.
- ‘Standards Committees’ as recommended by the Nolan Committee to ensure high standards of public probity and restore confidence in all levels of local government.

## Citizen Centred Services

Liberal Democrats welcome the abolition of Compulsory Competitive Tendering (CCT). We also agree with the Government that services should provide best value to the public. However, a number of the provisions within the Government’s Best Value regime are as prescriptive and inflexible as the CCT scheme it is replacing. The proposed regime runs the risk of making central government, not local people, the arbiters of best value.

In keeping with the proposals in *Moving Ahead- Towards a Citizens’ Britain* to recast the economic relationship between the citizen and government at the national level, local authorities would still be charged with delivering best value but they would be accountable to local people for doing so - not Whitehall bureaucrats.

This approach - Citizen Centred Services - would include measures such as:

- A ‘Local Citizens’ Tax Contract’ circulated to all residents by the local council with their Council Tax bill showing, in simple terms, how much tax is being raised locally and setting performance targets for the delivery of public services, focusing on outcomes rather than inputs.
- Merging the National Audit Office with the Audit Commission to produce a powerful new watchdog, responsible for producing comparative national figures on the services for which local authorities are responsible.
- Ensuring that priorities are delivered in an effective, open and inclusive way, including a legal right of consultation for local citizens, environmental best practice, and ‘joined-up’ service provision.

- Recognising that high quality services depend on high quality staff. We would ensure that local authorities value their staff and take measures to encourage innovation.

## **Investing in our Local Communities**

The link between what people pay and what a council spends has broken down. Today, over seventy five per cent of funding for local government services is provided from national taxation. Liberal Democrats' primary aim is to develop a local finance system that is fair, easy to understand, and frees local authorities from dependency on central government grants. We believe that local government should be responsible for raising more of its finances itself. We would aim, in the medium term, for local authorities to be responsible for raising 45% of what they spend. In the longer term we would aim to put in place a new system of local government finance that would be capable of raising around 80% of local expenditure.

What we propose would require a fundamental rebalancing of national and local taxation and therefore would have to be implemented over a period of time in a staged way:

Stage 1 - during the lifetime of one Parliament:

- Fairer Council Tax.
- Abolish Capping.
- Localise Business Rates.
- Introduce a fair and transparent equalisation process.

Stage 2 - In the longer term:

- Replace the business rate with a locally levied tax based on land values - Site Value Rating.
- Replace the Council Tax with Local Income Tax.
- As in stage 1, maintain a fair and transparent equalisation process.
- A reduction in national tax levels to offset increased local taxes.

Liberal Democrats propose substantial changes to the capital finance system, giving local councils greater autonomy over local spending (subject to local referenda), boosting public/private initiatives and ensuring adequate reporting mechanisms.

In keeping with our principle of shifting taxation off people and jobs and onto pollution and natural resource usage, local authorities would be able to fund improvements to local public transport by drawing on revenues from road pricing, taxation of private non-residential parking, enforcement of certain local emissions standards and parking offences.

# Introduction

1.0.1 Local Government plays an essential role in the governance of Britain. It spends over £70 billion a year of taxpayers' money and is the largest provider of frontline public services.

1.0.2 At the end of the nineteenth century, local government was a pioneer in public service delivery. Many of the social advances in education, public health, clean water, social housing and public transport came from town halls, not Whitehall.

1.0.3 In the latter half of the twentieth century, central government restricted and removed the powers of town halls. In many areas local government has fallen into disrepute and failed to put its own house in order. Poorly performing councils can argue failure to deliver adequate services is due to lack of central government funds. Lack of transparency means that many local residents simply have no idea where responsibility for mismanagement lies. The First Past the Post voting system all too often prevents local people from achieving change through the ballot box, leaving in place one party fiefdoms which can be open to corruption.

1.0.4 Under the Conservatives between 1979 and 1997, over 150 Acts of Parliament served to strip councils of their powers. At the same time local government was by-passed with the setting up of a whole raft of unelected agencies (Quangos). Council Tax capping and business rate nationalisation undermined financial independence.

1.0.5 In 1998, the Congress of Local and Regional Authorities which regularly monitors the state of local democracy in member countries, found "that major problems of local democracy exist in ....Croatia, Bulgaria, Latvia, Moldova, Ukraine and the United Kingdom", the principal concerns being those outlined in paragraph 1.0.4.

1.0.6 There is growing recognition for the need to reverse these trends. The abysmal voter turn out at the May 1998 local elections, which averaged 29% across England and Wales, has lent new urgency to the need to re-invent local democracy.

## 1.1 The Government's Proposals

1.1.1 The Government has recently released a White Paper on reform of local government '*In Touch with the People*'. The White Paper sets out the Government's vision of "successful modernised local government in England, and our strategy for achieving change".

1.1.2 Unfortunately, this vision is one of more centralisation of local government powers, not less, and more prescription of how local government should run its affairs. This is combined with centralising and secretive decision-making structures proposed for local government itself. 'Compulsory Competitive Tendering' (CCT) becomes 'Best Value' with a whole new industry created for accountants, lawyers and consultants. 'Capping' becomes 'reserve power to intervene' with little clarity about the criteria for intervention or the rationale behind decisions to intervene. Labour criticises one party fiefdoms but has refused to consider a fairer voting system. The White Paper argues for more financial independence but fails to return control of the business rate to councils.

## 1.2 Liberal Democrats and Local Government

1.2.1 Liberal Democrats believe that many of the Government's proposals for reform are flawed and incomplete. They fail to deliver real power to local people. Instead they concentrate power in the hands of government ministers and civil servants. The emphasis has been placed on local government's role as a service provider rather than on the governance of local communities. The Government's proposals fail to address the problem of local rule by one party fiefdoms and corruption. Plans to introduce elected mayors and cabinets could result in more decisions being taken behind closed doors and fewer opportunities for local representatives to scrutinise decisions and question decision-makers. Liberal Democrats want to see more people involved in the decision-making process, not fewer; more

inclusive and accountable local authorities, not councils run by cliques.

1.2.2 The Government had an opportunity to radically improve local government, to produce reforms that allow councils to become dynamic organisations, working in partnership with communities to achieve a local vision for the new Millennium. But Ministers have missed this opportunity and instead developed policies which reflect their obsession with central control and prescription.

### 1.3 A New Federal Structure

1.3.1 The building block of a new settlement for local government is the active citizen in an active community. This turns the theory and practice of government in this country on its head. It requires a Written Constitution to change the mind-set. Such a framework is essential; it defines the role of institutions and it sets limits on power. Above all it must be based on the principle that sovereignty rests with the people. It is the people who pool their sovereignty and invest it in their institutions of government.

1.3.2 The first step towards a Written Constitution would be the enactment of a Bill of Rights, guaranteeing citizens' rights and setting out the federal, national, regional and local authority powers, responsibilities and obligations as part of a comprehensive constitutional settlement. A Bill of Rights would set out what the citizen can expect from their local government, including their rights of redress if entitlements are not met. The Bill would only be fully effective if accompanied by a strong Freedom of Information Act that confers the right of access to information at all levels of government.

1.3.3 Citizens would benefit enormously from a truly pluralist constitutional settlement in which power is dispersed and exercised closer to them. A federal constitution would ensure that no executive decisions relating to shared functions are taken by a higher authority when they could effectively and efficiently be taken by a lower authority (the

principle of subsidiarity). This means that central government would prescribe less and intervene less, unlocking the potential of local communities, enabling local government to develop in line with the wishes of local people.

1.3.4 In accordance with this principle, Liberal Democrats would like to see a comprehensive network of community councils, based on natural communities, in all parts of the country, including London and other metropolitan areas (with titles reflecting existing descriptions - town, parish, community, neighbourhood etc.).

1.3.5 As part of this federal vision, Liberal Democrats want to facilitate the establishment of strong elected Regional Assemblies in England which would take appropriate powers and responsibilities from Westminster. They would replace unelected quangos, most of which operate within a formal regional structure. As the demand for elected Regional Assemblies will be stronger in some places than in others, any change to the sub-regional structure of local government would require full debate and the consent of the people.

1.3.6 It is in the context of our proposals for Regional Government that our reforms to health and social care commissioning would operate. In *Moving Ahead - Towards a Citizens' Britain*, we set out our proposals for combining the commissioning of health and social care within local government.

1.3.7 For Liberal Democrats, the possibility of variation in the competencies of regional and local authorities in line with local opinion is an exciting one. We favour a bottom-up federal approach that encourages experimentation and innovation.

1.3.8 This paper maps out the Liberal Democrats' vision for local governance. Building on the proposals in *Moving Ahead - Towards a Citizens' Britain*, our policies aim to create empowered citizens, entrepreneurial government and citizen centred services, with the maximum degree of real choice and control for local people.



# ***Reconnecting Local People With Local Democracy***

2.0.1 Our vision for local government is founded on the principle that sovereignty rests with the people. It is the people who pool their sovereignty and invest it in their institutions of government. It follows that decisions should be taken as closely as possible to the citizen.

2.0.2 Under successive Labour and Conservative administrations, central government has encroached on the powers of local government - limiting its ability to raise revenue, fragmenting its functions and constricting its role. The result has been a loss of purpose and a decline in local participation in the governance of local communities.

2.0.3 Low electoral turnout is a serious weakness in local government and local democracy. Existing voting systems are also out of step with the daily lives of many people.

2.0.4 The task of reconnecting local people with local democracy, of empowering local citizens, will not be served national prescription. Liberal Democrats believe that local government is more than an agency for delivering monolithic national policy solutions - 'national problems' require local solutions, developed in partnership between local people, voluntary agencies, public and private bodies, and strong accountable local government.

## **2.1 Empowering Local People**

2.1.1 If we are to reconnect local people with local democracy, we need to create, at a local level, a political and economic settlement which recognises, as a central principle, that power should flow up from the individual rather than down from the state. The Liberal Democrat vision is of the 'powerful citizen', living in a strong community, and backed by enabling government. This requires 'active' citizenship, equipping local people with real power and the capacity to exercise it. This is a citizenship based on rights, but which carries with it responsibilities too.

2.1.2 At a time when proportional representation systems for Westminster and the European Parliament are being debated, and are in place for the Scottish Parliament, and the Welsh and London Assemblies, it would be strange if local government alone were left with First Past the Post (FPTP). Liberal Democrats have long argued that FPTP should be replaced with a fairer, proportional system, using the Single Transferable Vote (STV), holding elections for an entire authority every four years. Proportional Representation is the key to overthrowing one-party fiefdoms. PR would make single party domination of councils far less likely and would strengthen opposition groups so that they were more able to challenge the ruling party. Electoral reform would help to weed out corrupt practice and restore public confidence in the integrity of local government.

2.1.3 A reformed voting system also requires measures to update voting practice and improve access, such as:

- Installing a rolling register of electors.
- Enabling voting to take place over weekends.
- Allowing wider acceptance of postal votes by returning officers.

We would also investigate systems of electronic voting that could take place from home or work, and in places of public assembly such as supermarkets, university and college campuses and train stations. We would ensure that polling stations are accessible to disabled people and make voting easier for blind and visually impaired voters.

2.1.4 But electoral reform for local government is not in itself a panacea for the ills of local government. Liberal Democrats would empower local people by:

- **Opening up the decision-making process**, taking steps to improve access and involvement for local people. Greater participation and more open, comprehensive structures are essential in connecting local people to the decision-making process and giving them a sense of ownership over community development strategies. Liberal Democrat councils have a strong track record in community participation (see 2.4). We have encouraged the adoption of measures to open up councils, such as allowing the public, where appropriate, to speak and ask questions at committee and council meetings. The introduction of ‘Neighbourhood Committees’ and ‘Residents’ Democracy Boards’ have proved highly effective in encouraging community involvement and decision-making. A citizen centred approach would make use of advisory referenda to inform debate and shape policy. In particular, referenda could be used to:

- \* Engage citizens in a major policy decision.
- \* Confirm the key objectives of the council.
- \* Approve overall levels of council spending.
- \* Consult the local people on petition-based Citizens’ Initiatives.

Although the way that councils improve consultation and decision-making procedures will vary in different areas, a comprehensive Freedom of Information Act, conferring a public right to access to government information at all levels, is an essential part of this process.

### OPTION

- **Introducing a people’s power of recall.** This would allow residents who are unhappy with their administration or elected mayor to collect a petition demanding their recall. A referendum would then be held and if won, fresh elections would follow. In a four-year term of office this could not take place within the first or last year of any administration. The Local Government Association would have responsibility for agreeing, after consultation with local authorities and other bodies, an appropriate threshold of registered voters’ support required in order for a petition to trigger a referendum. This threshold would be specified in the Written Constitution.

## 2.2 Enhancing Innovation

2.2.1 Liberal Democrats support the need for innovative and independent local government that places public participation at the centre of decision-making and customer interests at the heart of services. Good local government is all about balancing competing community priorities and offering vision and leadership to the local community.

2.2.2 In local government, Liberal Democrats have a proud record as fighters for quality, value for money services, and cutting out waste. However, councils are constrained from taking these innovations further. Lack of resources means consultation and participation can be regarded as ‘luxury’ items. The lack of financial freedom and the limited powers of local government lead local people to question the value of their involvement.

2.2.3 In order to develop local solutions to the challenges facing this country, local government needs to be granted the space and freedom to experiment and innovate. In order for a climate of innovation to take hold at a local level, local government should have the constitutional *power of general competence*. Rather than restraining councils’ ability to act by prescribing specific areas of competence, this would allow a council to do anything within its area for the benefit of local people which is neither explicitly forbidden by law, nor the direct duty of another public body. This would empower local government to address the varying needs and challenges facing diverse communities and encourage a climate of innovation.

2.2.4 Unlike other parties, we do not believe central government should dictate management style, service priorities and democratic structures for every council. We want councils to find local solutions to local problems. This means adopting a non-prescriptive approach while encouraging innovation and best practice, ensuring that the priorities of local people are reflected in the way local taxes are spent and services provided, rather than imposing a blueprint from the centre.

2.2.5 Liberal Democrats would like to see local authorities adopt a number of approaches that would serve to engender an entrepreneurial climate and encouragement of best practice, as well as more inclusive and open structures:

- **Democratic structures reflecting local democratic needs.** We would encourage councils to vary democratic structures to suit local needs. This may involve the institution of ‘Neighbourhood Committees’ (see 2.4.2). While we oppose the introduction of elected mayors because of the danger of autocratic rule, we believe that local people should be allowed choice in determining their own local democratic solution. We deplore the lack of attention to checks and balances within the Local Government (Experimental Arrangements) Bill, as these are essential if democracy and accountability are not to be compromised. This lack of checks and balances in proposals to switch to decision-making by single party committees could destroy the role of opposition councillors in making a contribution and in holding the majority party to account. However, we uphold the principle that councils should be able to make their own arrangements, free of central pressure. Each council would have to demonstrate to local citizens that any new structure proposed meets the basic requirements of transparent decision-making, freedom of information and allowing adequate scrutiny by opposition parties, voluntary organisations and local residents. Councils would also have to a duty to give opposition parties the opportunity to make input before decisions are taken, and there should be mechanisms in place to ensure that nominations made by councils to other bodies are broadly proportional to the representation of political parties on the council.
- **Leading Community Partnerships.** Councils are well placed to bring together local interests and to lead other partners in developing a local vision and carrying out local projects. Section 2.4 (*The Liberal Democrat Approach*) shows the potential energy and enthusiasm with which local government can motivate others. If local government is vigorously to exercise its community leadership role, public bodies such as TECs, Primary Care Groups, health and police authorities and Regional Development Agencies must be required to take seriously their own duties of partnership. Councils should always be the senior partner in such relationships, not least because they have the democratic legitimacy to hold unelected bodies to account.
- **Using Information Technology.** We would encourage local authorities to experiment with Information Technology (IT). Councils should experiment in the use of electronic systems to consult on local initiatives, conduct referenda, encourage resident participation in debates about local issues, as well as investigating electronic voting systems for both meetings and elections.
- **Environmental and Ethical Best Practice.** Liberal Democrats believe that local government, as well as national government, needs to act to ensure that environmental costs and benefits are fully reflected in every relevant decision they take. The use of ‘green clauses’ in local government procurement contracts is one method of greening the supply chain and promoting best practice. We would also expect councils to establish strategic environmental plans within the framework suggested by Local Agenda 21 to provide local environmental policies and targets. Environmental and ethical criteria should also be applied to councils’ investment decisions.

## 2.3 Standards in Public Life

2.3.1 Standards of public probity must be upheld if we are to demonstrate to local citizens that local councils can undertake the reinvigorated role that we envisage for them. Whilst misconduct by councillors or officers in local government is relatively rare, tales of corruption and inefficiency, in councils such as Westminster, Doncaster and Hull, have been all too common in recent years. This is why Liberal Democrats responded positively to the recommendations of the Nolan Committee on Local Government and have welcomed the Governments’ White Paper proposals on ethics and probity.

2.3.2 Liberal Democrats believe that local authorities, at every level, must take the leading responsibility for standards of conduct. We therefore support the Nolan principle of an internal disciplinary procedure through ‘Standards Committees’ with an independent element. We would also expect councils to take steps to ensure the highest ethical standards from councillors and council officers and the promotion of equality of opportunity in everything councils do.

2.3.3 Liberal Democrats believe that appropriate remuneration of locally elected representatives is a

local matter. We would leave decisions on these matters to be taken by individual local authorities, following consultation and discussion with local people. This could include provision for a number of full-time paid councillors if considered necessary to promote effective and democratic government.

## 2.4 The Liberal Democrat Approach

2.4.1 In many Liberal Democrat councils, the principles set out in 2.2 and 2.3 are already applied. Liberal Democrats have led the way in local government, promoting openness and transparency, public participation and innovative services.

2.4.2 Below are just some examples of good practice which we would encourage councils to investigate and put in place, if appropriate for their local circumstances:

- Neighbourhood Committees involving local people and councillors in decisions affecting their local area.
- Commissions involving councillors and statutory and voluntary agencies investigating a specific issue and making recommendations for action.
- Planning for Real which involves local people in local development decisions at the earliest stage of development proposals when local plans are formed, allowing them to influence the shaping of their communities.
- Key Issues Panels, supported by trained facilitators, to encourage local people to understand local issues and get involved in solving local problems.
- Local Agenda 21 projects, with councils facilitating a grass roots approach.
- Involving service users at the conception stage of policy and service development.
- Leading the way in applying Freedom of Information principles to council decisions and information.
- Encouraging the public to ask questions and speak at council meetings.

- Use of opinion polls to provide information to help prioritise services and to address poorly performing services.
- Use of Citizens' Panels to consult on policies, strategy and service delivery.
- Residents' Democracy schemes giving council tenants direct control over their estates' rent and service levels.
- Youth Councils encouraging young people to become directly engaged in the democratic process.
- One-Stop Shops improving access to council officers and services.
- Forums bringing together the providers and users of services to improve delivery and quality.

## 2.5 Guaranteeing Entitlement, Promoting Diversity

2.5.1 For Liberal Democrats, the debate about whether local authorities should be the provider of services directly or the commissioner of services through other organisations is sterile. The consumer of services cares little about the ideology behind the purchasing decision but is directly affected by the quality and cost-efficiency of the service as well as their ability to get redress when things go wrong. With a range of options for the provision of services, it follows that national government would have to take responsibility for setting minimum national standards, minimum thresholds and targets for basic entitlement. This would not prevent individual local authorities from setting higher standards at local level where demanded, or curtail their freedom to deliver the entitlement through a tailor-made local strategy.

2.5.2 The following chapter develops our proposals for improving public services and ensuring that they meet the needs of the local citizens who use them.

# ***Citizen Centred Services***

3.0.1 Liberal Democrats are committed to ensuring that public services are delivered efficiently and effectively and that they are customer centred. But being a consumer is only a small part of being a citizen. As the Commission for Local Democracy said in their final report in 1995, citizenship cannot “be equated with public services traded as consumption goods in the market place. Individual choice of privatised services is no substitute for collective influence over the conduct of those services”. Our aim is for empowered citizens, entrepreneurial government and citizen centred services. We do not want more government doing more things for more people, but better government delivering better services.

3.0.2 Our proposals to open up local government (see previous chapter), and to make it more accountable with a fair votes system that reflects the preferences of all the community, would help reduce complacency and improve standards in public services. However, while constitutional reform is essential, it would not on its own bring about all the improvements we want to see. Other changes are also necessary.

## **3.1 CCT & Best Value**

3.1.1 Under the last Government, local councils were forced to put out vast numbers of services to tender to the private sector under the Compulsory Competitive Tendering (CCT) scheme. Liberal Democrats are not opposed to private companies running local public services, indeed Liberal Democrats welcome healthy competition as a means of improving efficiency and quality of service provision. But CCT was so prescriptive and inflexible, it often meant that services were put out to tender which would have been cheaper and better run by councils themselves or by local people working on a voluntary basis.

3.1.2 It is the ‘compulsory’ not the ‘competitive’ aspect of CCT to which Liberal Democrats objected. Too often, tendering was imposed on services where it was not appropriate. CCT also brought other difficulties - it failed to recognise the

importance of environmental factors or the need to treat employees fairly and provide for their personal development and training.

3.1.3 Local councils must put people first. CCT has forced councils to focus on cost at the expense of any other issues. It is important that councils do not ignore social and environmental factors when making decisions.

3.1.4 The Labour Government has announced that it will abolish CCT and replace it with Best Value. Liberal Democrats welcome the abolition of CCT. We also agree with the Government that services should provide best value to the public. However, a number of the provisions within the Government’s Best Value regime are as prescriptive and inflexible as the CCT scheme it is replacing. For example, it would add a new layer of unwelcome bureaucracy as local government would have to justify service standards to new and existing Government Inspectorates and Departments. The proposed regime runs the risk of making central government, not local people, the arbiters of best value.

## **3.2 Improving Services**

3.2.1 Liberal Democrats would adopt a different approach - Citizen Centred Services. In keeping with our proposals in *Moving Ahead* to recast the economic relationship between the citizen and government at the national level, local authorities would still be charged with delivering best value but they would be accountable to local people for doing so - not Whitehall bureaucrats.

3.2.2 To underpin this approach, each year every council would have a legal duty to publish a ‘Local Citizens’ Tax Contract’ circulated to all local residents with their Council Tax bill. This would show, in simple terms, how much tax is being raised locally, what services are being provided and set performance targets for the delivery of public services. It would state what the authority’s key objectives are for the next 12 months as well as how successful it has been in meeting last year’s

objectives. It would focus on outcomes, rather than inputs - giving consideration to qualitative as well as quantitative measures. For example - measures to improve environmental performance; achievement of maximum average class sizes; measures to focus on the independence of older people; targets for keeping the roads, pavements and public areas clean. Each Contract would include provision for feedback, especially on local priorities. This Contract would make a reality of the principle 'no taxation without explanation'.

3.2.4 We also envisage an entirely new role for the National Audit Office. By merging it with the Audit Commission, we would create a powerful new citizens' watchdog which would report on how efficiently and effectively taxpayers money has been spent and how far the promises of politicians have been met.

3.2.3 Local authorities would be free to develop their own priorities and therefore set their own key objectives. However, in order to develop priorities in an open and inclusive way, certain procedures would need to be in place. We would ensure that:

- Citizens have a legal right to be consulted by their local council when it is setting the key objectives.
- Local authorities are encouraged to set targets which ensure on-going improvement.
- In line with our proposals on environmental best practice in 2.2.5, local authorities would be encouraged to adopt an environmental management system, such as 'Eco Management and Audit', to monitor and adapt their direct and indirect environmental impacts. Environmental and social costs and benefits should be fully reflected in every relevant decision taken.
- A set of comparative national figures exist for service delivery of the services that are the responsibility of local government.
- Adequate reporting mechanisms are in place that would allow local people to judge the performance of their council.

3.2.4 Liberal Democrats want to see greater choice for the individual, not just at a local level but at all levels. We welcome the Government's proposals for 'joined up' government where service

providers from various agencies co-ordinate service delivery. Indeed, this concept led Liberal Democrat run councils to pioneer 'one stop shops'. The use of information technology can assist in this process. It can also assist in giving people more choices, information and say on local services.

3.2.5 With diversity, there will be different ways of delivering services; some in the traditional in-house way, others through the private sector, and others through voluntary and community groups. Often, there may be different combinations of the above with the use of innovative partnership schemes. These proposals would go a long way to opening up public services to much greater public accountability and empowering citizens to make more informed choices.

### 3.3 Valuing Staff

3.3.1 We will not radically improve service delivery unless there is a sea-change in our cultural approach to public service. We now live in a blame led public sector culture. At all levels of government, local and national, politicians and officers are too scared to take risks in case something might go wrong. This leads to dull uniformity and greater centralisation of power. Rather than giving councils a *power of general competence* (see 2.2.3), the Treasury seems to want to make every Minister and every tier of government responsible to it. The logical result of this approach would be no experimentation and no diversity. But without diversity we cannot learn lessons from others and without experimentation we cannot learn new ways of working. Without either, there would be no guarantee of on-going improvement in services.

3.3.2 We must start valuing local authority staff. High quality services depend upon high quality staff. Local government will only improve services if it is able to attract and retain high quality professionals in roles such as such as teaching and social work.

3.3.3 Liberal Democrats would seek to ensure that:

- Local authorities operate equal opportunities policy throughout their recruitment and promotion procedures.

- Appropriate ‘whistle-blowing’ procedures are in place for members of staff and the public to report on corrupt actions and misuse of public monies.
- The public service ethos of local authority officers is maintained, and not eroded by the pressure for the ‘politicisation’ of staff.
- Staff training and development schemes are available to encourage officers to innovate.
- There are adequate forums for discussion between officers, councillors and staff.
- Flexible working practices are introduced, such as flexi-time, home working and job sharing, which would enable a wider range of people with caring or other responsibilities to be part of the workforce.

# Investing in Our Local Communities

## 4.1 The Need for Reform

4.1.1 Local Government finance is in desperate need of reform. The current system is complicated, open to accusations of political interference, lacks any transparency and undermines accountability to the taxpayer.

4.1.2 The link between what people pay and what a council spends has broken down. Today, over seventy-five per cent of funding for local government services is provided from national taxation. Because local government is now so dependent on central government grants, any change in overall government funding or any change in how the grant is allocated can massively affect a council's finances and a resident's Council Tax Bill. The result is that taxpayers living in what may be an efficient council area cannot understand when their Council Tax rockets and their services face substantial budget cuts. Yet, in other areas, which enjoy generous government grants, Council Tax levels can, at times, be reduced and spending on services increased.

4.1.3 Central government control of council spending does not stop there. Central government sets down what is a statutory (compulsory) requirement for a local council and what is discretionary. Inevitably, when budgets are squeezed, local authorities have little choice but to cut away at the optional services first. Central government controls on capital spending and borrowing have hugely affected investment in capital items and the maintenance of local assets.

4.1.4 The most notable and high-profile control which central government imposes on local councils is capping - where a local council is prevented from spending at above a certain level. It means that if a council wants to raise taxes to pay for certain services, even if it has the support of local residents, it is unable to do so.

4.1.5 The Lords' Select Committee on Relations between Central and Local Government (the Hunt Committee Report, 1996) echoed scepticism of the Treasury's view that central control of local government revenue and of expenditure is important in macro-economic terms. It demolished the circular argument that it is so because it forms part of government expenditure ('a Humpty-Dumpty argument'). It also dismissed the other arguments, noting that 'international experience shows that other economies can be successful while doing things differently; and that local government self-financed expenditure has been in and out of the control total over time'.

4.1.6 Central government control of local spending has not always been as strict as it is now. Indeed, until the mid-1970's local councils had relative freedom to do as their local residents wished. Most funding was raised locally, and lines of accountability for local tax and spending decisions were clearer. The major change took place in the 1980's under the Tories. Three disastrous policies were introduced which blew apart any notion of local accountability:

- *The Poll Tax.* The Poll Tax was so unpopular and unfair that the Government was forced to increase VAT to keep Poll Tax levels as low as possible. As a consequence, local councils became increasingly dependent on central government grants. The Poll Tax was finally replaced by the Council Tax, but by that stage the balance between local taxes and central grants was skewed and peoples' alienation from local government entrenched.
- *The nationalisation of the business rate.* Until the late 1980s local authorities levied their own tax on business and had a duty to consult local business before setting the rate. The Tories changed all this, by abolishing the local tax, establishing a new national Uniform Business Rate (UBR) and using the 'pooled' monies to redistribute as it wished. Not only are local



councils more dependent on central government for finance, but the UBR has inflicted significant financial damage on companies throughout the country, particularly small firms.

- ‘Capping.’ The Government originally intended that only a few authorities would fall foul of capping. Inevitably, however, the Government used their new powers with increasing frequency, so much so that by the end of the 1980s capping was a mechanism for controlling each and every council budget.

4.1.7 Prior to the 1997 election, the Labour Party promised wholesale reform of the local government finance system. They said they would make the Council Tax fairer, bring the business rate back under local control, and abolish ‘capping’. Sadly, they have backed away from radical options and are now proposing tinkering at the edges. The Local Government White Paper, *In Touch with the People*, published in the summer of 1998, confirmed what many in local government had feared. Council Tax will not be touched in any way, a small 1% a year local optional levy (up to 5% maximum) would be linked with the business rate, and a form of capping would remain in place, albeit councils would not be informed of capping levels in advance of setting their budgets.

## 4.2 Improving Local Financial Accountability

4.2.1 Reforming local government finance must go hand in hand with wider reform of local government, outlined in chapters 2 and 3 of this paper. Without radical reform of the local government finance system, we cannot truly empower citizens and communities to determine their own priorities and solutions for their locality.

4.2.2 Our primary aim is to develop a local finance system that is fair, easy to understand, and frees local authorities from dependency on central government grants. We believe that local government should be responsible for raising more of its finances itself. We would aim, in the medium term, for local authorities to be responsible for raising around 45% of what they spend. In the longer term we would aim to put in place a new system of local government finance that would be capable of raising around 80% of what is spent

locally. These targets would be achievable only in the context of a sound mechanism for equalisation across local authorities (see 4.2.4).

4.2.3 What we propose would require a fundamental rebalancing of national and local taxation and therefore would have to be implemented over a period of time in a staged way.

### 4.2.4 STAGE 1

During the life of a Parliament we would legislate to make the local government system fairer and restore to local government greater financial independence by:

- **Making the Council Tax fairer.** We would carry out an immediate review of the Council Tax looking at the differentials between the highest and lowest bands and reduce bills for those living in the cheapest properties, such as mobile homes. We would also enable local authorities to charge full Council Tax for second homes, if they so determine.
- **Abolishing Capping.** Liberal Democrats welcomed the Government’s decision to sign the European Charter of Local Self-Government in 1997. The retention of reserve capping powers as laid out in the Government’s White Paper is less welcome. The continuation of capping local authority budgets is not compatible with the principles of local autonomy laid out in the Charter and Liberal Democrats would abolish capping altogether.
- **Localising Business Rates.** We would restore business rates to local control allowing local authorities to keep business rate revenues collected in their locality. This would require alterations to allocations of central government grants. Evidence suggests that restoring local control over business rates would help raise the amount of revenue collected locally from the current 18% to around 44%. We would establish a statutory link between the Council Tax and Local Business Rates to ensure that a council was unable to place the tax burden unfairly on local business.
- **Introduce a fair and transparent equalisation process.** Despite our wish to see more resources raised locally (with a corresponding reduction in national tax levels), we nevertheless recognise

the need for an equalisation process that re-distributes resources to poorer areas. We welcome the Government's proposals for greater stability in the process by setting out government grants for a three year period. However, the Government has done nothing to allay fears that the current process is politically motivated. As part of the Constitutional settlement described earlier in this paper we would establish an independent body to publish research on need assessments and advise Parliament and the public accordingly. Parliament would need to put in place a transparent and manifestly fair system for reaching decisions on the basis of these assessments.

#### 4.2.5 STAGE 2

In order for local government to reach our target of raising around 80% of what is spent locally, we would need to shift responsibility for taxation away from national government to local government. Liberal Democrats do not believe that financial freedom for local councils need increase the overall tax burden on individuals. We believe that decentralisation will result in better public scrutiny and democratic accountability over public funds, which will result in the more efficient use of resources. Our proposals below would require off-setting reductions in national taxation and equalisation procedures as outlined in Stage 1. We propose:

- **Abolition of the business rate and its replacement with a locally levied tax based on land values - Site Value Rating (SVR).** Unlike business rates, SVR is based on the value of the land and not on the buildings on it. It would be set by local councils in accordance with local community priorities. Such a tax promotes the efficient use of land. It would be levied on vacant sites and premises. It also generates revenue growth from infrastructure development which is reflected in higher land values. The rating of agricultural land and domestic premises is not part of this proposal.
- **Replacing the Council Tax with Local Income Tax (LIT).** A rate of LIT (pence in the pound) would be determined locally. Each local authority would give notice of the rate they have set to the Inland Revenue, who would collect LIT along with national income tax. As with

national income tax, LIT would be levied on taxable income. Individuals would be allocated to a local authority area based on the location of their main residence. LIT is based on the individuals ability to pay.

4.2.6 Our proposals to increase the proportion of funds raised locally will not mean that taxpayers will have to pay more taxes. Increases in local taxes will be offset by a simultaneous and corresponding reduction in national taxes. Our proposals in *Moving Ahead* aiming to raise the tax free income amount to £10,000 per person per year, will take millions of low earners out of paying income tax altogether.

### 4.3 Devolving Capital Finance

4.3.1 Years of central government restrictions on capital investment have resulted in serious decline of local infrastructure. Schools, public housing, and community buildings such as libraries and leisure centres have a backlog of repairs and refurbishment needs. Capital investment is vital to the provision of quality services - without capital investment, many children will continue to be educated in cramped conditions with leaking roofs, elderly people will continue to be cared for in sub-standard residential accommodation and public housing will continue to deteriorate.

4.3.2 In 1997-98 investment in local authority assets reached an all time low after sustained and substantial reductions in the 1990s. The Government has further reduced councils' capital spending and has undermined local needs and priorities by turning increasingly to 'bidding' systems driven by the Government's priorities which generates considerable unproductive work on unsuccessful bids. To reduce the PSNCR, the Government encourages private finance initiatives. But these schemes go ahead only if PFI money is available, not on the basis of local (or even national) priorities and needs being met. These schemes can also be more expensive in the long run. Proper measurement of the long-term costs of PFI schemes is needed.

4.3.3 Few councils are now able to meet local demands and priorities by building new facilities. The Audit Commission has estimated that local councils will require up to £15 billion of extra spending over the next five years to clear

maintenance backlogs, bring existing assets up to acceptable standards, and provide new assets to meet future needs.

4.3.4 In order to restore accountability and ensure that investment is concentrated where it is most needed Liberal Democrats propose substantial changes to the capital finance system. We would:

- **Give councils greater autonomy over local spending subject to local support.** Local authorities should be able to re-invest all their capital receipts. We believe that direct capital controls should be removed and replaced by a greater say for local people. We are attracted by the position in New Zealand where local councils are free to raise loans but have to advertise their intention to do so, setting out the purpose of each loan. If there is an objection, a poll has to be conducted. The council can only proceed to raise the loan if it achieves a majority approval in the poll. Far from being an expensive PR exercise, the New Zealand lesson shows that councils can often lose polls. Such referenda need only be used for big projects. With smaller projects, more flexibility should be allowed subject to transparency and maintaining the principle that borrowing should fund only net investment.
- **Ensure adequate reporting mechanisms.** We would expect councils to inform local citizens of council plans for borrowing levels and capital projects. Our proposed 'Local Citizens' Tax Contract', received yearly by each household with their Council Tax bill (see 3.2.2), would include a section on asset maintenance stating how effectively the council is maintaining local assets.
- **Boost local public/private partnership initiatives.** We would encourage councils to develop partnership approaches as part of their capital programme but would remove the financial and political compulsion that can lead to bad investment decisions. We would make it easier for local authorities to raise money through the commercial markets, for example by issuing bonds subject to prudent rules and transparency. Local authorities should also be able to issue low denomination bonds to local investors.

4.3.5 By reducing local authorities' dependence on central government, we would seek - over a period of time - to reduce the need for credit approvals. However, we recognise there would still be a need for

some direct central government funding to compensate for difference in needs and resources, or where a specific project is required in the regional or national interest (an example being a flood defence protection).

## 4.4 Other Forms of Funding

4.4.1 Local government charges for some 600 different activities and this accounts for, on average, between 10-15% of an authority's income. The approach to national minimum standards outlined in 2.5.1 is central to our approach to charges.

4.4.2 The reforms outlined in this chapter and in chapter 3 will give local authorities the flexibility they need to be able to take decisions about the balance to be struck between collective provision paid for by taxes and individual services paid for by charges. The current local government finance system distorts local priorities as councils attempt to sustain, and ration access to, services by increasing reliance on charges.

4.4.3 In *Moving Ahead*, it is recognised that the use of charges for social care creates a significant obstacle to a seamless health and social care system. Liberal Democrats believe that a reformed local government finance system would better enable local government to discharge their new health and social care commissioning responsibilities.

4.4.4 In keeping with our principle of shifting taxation off people and jobs and onto pollution and natural resource usage, local authorities would be able to fund improvements to local public transport by drawing on revenues from road pricing, taxation of private non-residential parking, enforcement of appropriate local emissions standards and parking offences. Additionally, our proposals for a 'Greenfield Development Tax', 75% of which would be used to clean up brownfield sites, the remainder of which would be used for the general benefit of the local community, would help to discourage development on greenfield sites.

4.4.5 Whilst local government has used EU funding in imaginative and innovative ways, central government continues to refuse to loosen its control over funds to create a more flexible and effective partnership with the EU. Liberal Democrats would give local authorities greater freedom to develop partnership arrangements with the EU and other public bodies.

*This Paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats and the Welsh Liberal Democrats determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party, except in appropriate areas where any national party policy would take precedence.*

*Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.*

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*Note: Membership of the Commissions should not be taken to indicate that every member necessarily agrees with every section or every proposal in this Paper. The Chair would like to thank members of the working group for their considerable efforts in putting this paper together.*

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