

**Scottish Parliament, Local
Government and Regeneration
Committee: Flexibility and Autonomy
of Local Government**

A Submission by:

**The Chartered Institute of Public
Finance and Accountancy**

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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1. EXECUTIVE SUMMARY

- 1.1 CIPFA welcomes the opportunity to contribute to the work of the Committee and believes that it will help to inform the ongoing debate on public service reform and the need to strengthen and enhance local democratic structures.
- 1.2 Our response to the Committee is focused upon the current system of funding local government to support the delivery of public services, with suggestions for reform and improvement.
- 1.3 Our vision is for a local government which is truly local, where the level of local taxation is a matter for local consideration, where levels of funding are informed by the actual cost of services and where local government is the leader in a 'place based' resource planning and budgeting framework:
 - **Funding local government** - The current system of local government funding in Scotland does not support the delivery of better outcomes. Funding for local government is largely determined by use of formulae, which are generally input-based. In moving towards a more outcomes-based approach to public service management improvement will be required in the quality, availability, evaluation, monitoring and reporting of data in relation to outcomes.
 - **Financial accountability in local government** - In Scotland, elements of government grant are conditional on a prescribed level of local taxation being set, which has resulted in a council tax freeze since 2007-08. The balance of local accountability has been fundamentally altered, distorting the previous relationship between, local government, the citizen and central government and thereby reducing the autonomy of local government. Responsibility for local taxation, should sit clearly at a local level and should promote accountability to local citizens for local choices and incentivise growth of the local economy, attract investment and deliver positive outcomes for the local area.
 - **Accounting for the cost of local government services** - CIPFA considers that a different focus on accountability is required which enables the true cost of services to be recognised. This could be achieved by greater use of the financial statements of local government.
 - **Planning and budgeting for outcomes** - The current formulae-based mechanisms of funding local government are largely input-based and as stated above, we believe there is a need for a consistent public management system integrating funding distribution, service delivery mechanisms and outcomes.

2. FUNDING LOCAL GOVERNMENT SERVICES

Local government funding across the UK

2.1 Local government services are funded from a range of sources which include (but not restricted to):

- Government grant funding
- Domestic and non-domestic taxes
- Charges for services including housing rents
- Grant funding
- Borrowing
- Capital receipts (from sale of assets)

This submission is restricted to an overview of funding for annual services.

2.2 In Scotland, England and Wales,¹ local government funding for services consists of a statistically-based formula-driven revenue grant, supported by local taxation, with the possibility of further revenue raising ability through fees and charges. Typically some 75-80% of net revenue funding is from central government support (including non-domestic rates).² There is however evidence of variation in approach within the UK.

2.3 Further information on the current position in England and Wales can be found in [Annex A](#).

2.4 The current system of local government funding in Scotland by the Scottish Government does not support the delivery of better outcomes, and we have previously suggested that in order to deliver better outcomes across the public sector a more holistic means of funding public services should be considered.³

2.5 Local authorities are currently funded by block grant, amounting to around 80% of their funding. The methodology used by the Scottish Government to determine the level of grant is largely formula-driven, the Grant Aided Expenditure (GAE) System.⁴

¹ In Northern Ireland the existing local government structure is different from the other UK administrations, which results in a different balance of local government funding, with some 92% being funded from local taxation, with only 8% relying on central government grants. Northern Ireland, Department of Environment, [Local Government Funding](#)

² Further detail on the funding of local government can be found in the following sources. Scotland: Scottish Government, [2012-15 Settlement - Grant Aided Expenditure](#). England: National Statistics, [Local authority revenue expenditure and financing in England: 2012 to 2013 final outturn](#), November 2013. Wales: National Assembly for Wales, Research Service, [Local Government Settlement](#), May 2011

³ [The Commission on Future delivery of Public Services A Joint Submission by: The Chartered Institute of Public Finance and Accountancy & The CIPFA Scottish Directors of Finance Section](#), March 2011

⁴ Scottish Government, [Grant Aided Expenditure](#)

- 2.6 Such historic formulae are largely input based and we share the view of the Independent Budget Review Panel which reported in June 2010 that there is a need to move towards a more outcomes-based approach to public service management and to improve the quality, availability and application of evaluation, monitoring and reporting data in relation to outcomes.⁵ Our view however is that there is a disconnect between the largely historic input based approach to resource allocation and the outcome expectations for our public services.
- 2.7 The existing arrangements for local government funding may have been largely driven by central control at the UK level, and more recently influenced by the continuing austerity agenda and its impact on local funding. However, the upcoming referendum, whatever the outcome, presents Scotland with an opportunity to reconsider the nature of local democracy in Scotland, as is being considered by the Commission on Strengthening Local Democracy.⁶
- 2.8 In England CIPFA and the Local Government Association (LGA) have announced their intention to form an independent commission to consider local government funding.⁷ It is intended that the commission will produce impartial, balanced advice on how best to ensure that the funding system for local government can move towards a settlement that is fair, locally accountable and sustainable in the long term. Much of the reason for the introduction of the independent commission are also relevant to Scotland. It is likely that the emerging messages from the work of the commission will be of direct interest to both the Scottish Government and to local authorities

We recommend:

- 2.9 That an independent review of the current system of resource allocation is undertaken, to ensure as far as possible that national resources are directed towards the achievement of public service outcomes and have proper regard to the geographic, economic and social characteristics of different localities which drive demand and the cost of public services. We conclude that the protection of major blocks of the Scottish budget does not contribute to the delivery of better outcomes, given the context of integrated services and early intervention programmes**

3 ACCOUNTABILITY IN LOCAL GOVERNMENT

- 3.1 We believe that whilst much attention in recent years has focussed on alternative systems of local taxation, there continues to be a need to provide a means of promoting local accountability and increasing flexibility for local spending decisions, and of incentivising local public bodies to promote investment in their local areas, and further grow the local economy for the benefit of all.⁸

⁵ [Independent Budget Review Panel Report](#) July 2010

⁶ [Commission on Strengthening Local Democracy](#)

⁷ Public Finance, [CIPFA and LGA to launch local government finance commission](#), 23 January 2014

⁸ [CIPFA & Directors of Finance Joint Response to A Fairer Local Tax for Scotland](#)

- 3.2 The Layfield Report⁹ contributed much to the debate on local accountability of local government, concluding that this had been weakened by the tendency for government grants to grow when compared to the contribution from local taxation.
- 3.3 This remains present within the current system and we re-examined Layfield's consideration of accountability to assess whether it remains fit for purpose in the current era. Layfield recommended that local accountability could be revived by making local government responsible to their electorate for both the expenditure they incur and the revenue they raise and above all, for changes in either. The Layfield view was that tax raising and spending together guarantees accountability.
- 3.4 In Scotland, although local government has tax-raising capacity from both NDR and council tax, these systems as they currently operate, dilute accountability rather than support it:
- NDR is effectively a national levy by central government, and outwith TIF schemes, are without direct accountability of authorities to NDR taxpayers (e.g. local businesses); and
 - Elements of Scottish Government grant funding have become conditional upon the freezing of council tax. This has created a disconnect between the accountability of the local authority to its tax payers, fundamentally altering the balance of accountability and creating the situation where local government is more accountable to central government (as a provider of finance) than to the citizens as the electorate and recipients of services.
- 3.5 We conclude that while the council tax freeze is undoubtedly welcome for tax payers, it has resulted in the removal of an important financial lever for local authorities and removes a key layer of local accountability. The narrow benefit of a frozen level of taxation has to be considered against the background of what local authorities have been unable to do as a result of the removal of this important financial lever.
- 3.6 Locally raised revenues provide one of the direct links from taxation to service provision, which makes local government directly accountable to its citizens. The higher the level of tax autonomy, the more incentive to ensure best value in use of taxpayer's money. We consider that local taxation is levied specifically to contribute to the delivery of local public services. This simple and central purpose ensures the link between local democracy and local accountability. The conditionality of elements of grant funding on a council tax freeze therefore distorts the balance of accountability and raises the question of who local government is accountable to, central government or local taxpayers.

⁹ Committee of Enquiry into Local Government Finance Local Government Finance 1976. HMSO

We recommend:

3.7 That as part of a revised system of funding, there should also be a review of the proportion of resources which can be raised locally; as part of this:

- **Responsibility for, and control of local taxation should sit clearly at the local level; and**
- **The level of resources raised from local taxation should promote accountability to local citizens for local choices and incentivise growth of the local economy, attract investment and deliver positive outcomes for the local area.**

4 ACCOUNTING FOR THE COST OF LOCAL GOVERNMENT SERVICES

4.1 CIPFA considers that accountability is wider than just the level of taxation set, and funding provided by the Scottish Government. Proper accountability should also focus on the actual level of resource used in public service delivery, which may be more or less than the actual level of income.

4.2 The way in which the Scottish Government determines the funding requirement for local government and the way in which budget are set differ from the manner in which local authorities are required to account for their financial performance. The budget framework is determined by legislation, whereas financial reporting is based on internationally recognised professional accounting standards. Traditionally the financial reports have not been utilised to inform local government performance, decision-making or the required level of funding.

4.3 In our submission to the Commission on Strengthening Local Democracy¹⁰ we calculated the likely cost of local government services in Scotland to be of the order of £19.5 billion. When the costs were compared to available funding, our interpretation was that local government services were being consumed at a rate greater than we were prepared to pay for them, yet the extent to which financial statements of local authorities are used in decision-making on funding or forward resource requirement is unclear.

4.3 CIPFA therefore considers that there is opportunity for a different focus on accountability, which enables the true cost of services to be recognised. This could inform funding decisions, and provide clear information on the inter-generational impact of local spending decisions.

We recommend:

4.4 That as part of a revised system of funding there should also be consideration of the actual cost of services as shown by the financial statements of local government, to help inform funding decisions, and the sustainability and stability of local government finances in the future.

¹⁰ [CIPFA submission to the Commission on Strengthening Local Democracy](#), December 2013.

5 PLANNING AND BUDGETING FOR OUTCOMES

- 5.1 In our submission to the Christie Commission,¹¹ we concluded at that time that the system of public finance in Scotland did not adequately support the delivery of better outcomes. The resource allocations for local government are distributed with limited consideration of the outcomes to be delivered in each locality and the real cost of doing so. We further conclude that modification to the funding system in itself will not result in better outcomes.
- 5.2 The current formulae-based mechanisms of funding local government are largely input-based and as stated above, we believe there is a need to move towards a more outcomes-based approach to public service management and to improve the quality, availability, evaluation, monitoring and reporting of data in relation to outcomes.
- 5.3 The challenge at a local level is to reflect outcomes in budgeting systems, moving from incrementally based models to systems which support resource application in line with outcomes. Generally, budgets are configured around organisational structures, thus decisions are not transparently made based on outcomes. While we acknowledge that some local authorities have modernised their budget setting frameworks, the continued use of incremental budgeting hampers the degree to which decisions can be made based on the value for money of programmes and activities.
- 5.4 A pilot project suggests there is a strong foundation for the development of outcome-based budgeting in the Scottish public sector.¹² The project supported two Community Planning Partnerships (CPPs) to understand how their budget decisions affect the delivery of their SOA outcomes. Barriers currently preventing this outcomes approach from being fully implemented were identified, but it was found that a consistently applied and mainstreamed outcome planning framework could help to tackle these issues. The project clearly identified the need for significant local and national change in processes and cultures. There is clear consensus that a stronger focus on outcomes is needed.¹³
- 5.5 The move towards an outcomes-based regime is no easy task, with establishing and agreeing measurable policy outcomes being problematic at a technical, professional and political level. If such an approach were adopted CIPFA would be committed to working with the sector and wider partners to aid in establishing clear and measurable outcomes to underpin such an approach.

¹¹ [CIPFA submission to The Commission on Future Delivery of Public Services](#) (Christie Commission), March 2011

¹² [Outcome Budgeting in the Scottish Public Sector: Final Summary Report](#)

¹³ Scottish Government, Commission on the Future Delivery of Public Services, [Report on the Future Delivery of Public Services by the Commission chaired by Dr Campbell Christie](#), June 2011

We recommend:

5.6 A consistent public management system integrating funding distribution, service delivery mechanisms and outcomes should be developed to support:

- **A locality 'place-based' approach to public services and outcome budgeting framework which incentivises partnership and collaboration;**
- **The achievement of best value for taxpayer funds and financial sustainability in service provision, regardless of the source of funds; and**
- **An embedded outcomes focus in budgeting, monitoring and accountability.**

ANNEX A: LOCAL GOVERNMENT FUNDING IN ENGLAND AND WALES

England

- A.1 In 2011 a review,¹⁴ examining how councils could have greater control over their finances resulted in the localisation of council tax support and retention of a share of growth of NDR income.¹⁵ However, the greater localism in relation to retention of NDR income may well be partially undermined by the recent announcement of a cap on NDR increases.¹⁶ The Local Government Association (LGA) has called for this freeze to be funded by the Government so as not to further undermine local government financial stability or incentivisation.¹⁷
- A.2 Since 2011, the UK Government has offered support for local authorities to freeze council tax levels.¹⁸ The take-up rate for this funding has reduced from 100% in 2011/12 to 61% in 2013/14. This freeze marks a diversion in the link between local democracy and accountability, by lessening the accountability to the local tax-payers and increasing that to central government.
- A.3 A recent National Audit Office (NAO) report¹⁹ concluded that the cumulative impacts of changes in local government funding must be understood. With continued reductions and changes to funding mechanisms, financial uncertainty is increasing the challenge to meet statutory duties and avoid financial difficulty. The report also states:
- The accountability framework for local government to address widespread financial failure is untested. ...[it]...relies heavily on the long-established safeguards and assurances within local authorities. The framework has not yet faced a case of widespread financial failure and where there have been 'one-off' failures requiring central government intervention, the failure regime has managed to resolve them.*
- A.4 Earlier this year, CIPFA and the LGA launched an independent commission to look at the future of local government finance.²⁰ In evidence to the Communities and Local Government select committee inquiry into fiscal devolution to cities and city regions this week, CIPFA's Chief Executive highlighted the need for reform of the current system.²¹

¹⁴ House of Commons Library, Standard Note SN/PC/06030, [The local government resource review](#), February 2013

¹⁵ Department for Communities and Local Government, [Giving local authorities more control over how they spend public money in their area](#), October 2013

¹⁶ HM Treasury, [Autumn Statement 2013](#), December 2013

¹⁷ Local Government Association, Press Release, [LGA responds to Autumn Statement business rates announcements](#), 5 December 2013

¹⁸ Department of Communities and Local Government, [Making sure Council Tax payers get good value for money: Council Tax Freeze](#), July 2013

¹⁹ National Audit Office, [Financial sustainability of local authorities](#), January 2013

²⁰ Public Finance, [CIPFA and LGA to launch local government finance commission](#), January 2014

²¹ Public Finance, [Local government finance reform 'unavoidable'](#), Whiteman tells MPs, 25 March 2014

Wales

- A.5 In Wales it is understood that funding still includes a significant proportion of specific grant. The Welsh Government has committed to reducing the number of specific grants to local authorities together with a move towards accountability for delivering government priorities through Outcome Agreements.²² More recently, they have commissioned a review of funding flexibilities for local government.²³
- A.6 A review into the NDR system in Wales²⁴ led to the Welsh Government committing to consider incentivising local authorities to focus on growth; monitor the effectiveness of Tax Increment Financing (TIF) across the UK; and whether local communities could retain non-domestic rates (NDR) from large renewable projects.²⁵ More recently the Silk Commission recommended that there should be full devolution of NDR,²⁶ which was recently accepted by the UK Government.²⁷
- A.7 The Commission on Public Service Governance and Delivery²⁸ was established to examine how public services are held accountable for their performance and delivered most effectively to the public. In its report it recommended that *'funding arrangements must be simpler and focused on outcomes'* and that:

...all specific grants which the Welsh Government pays to other public sector bodies must be either:

- *Included in unhypothecated funding; or*
- *Subject to much clearer, outcome-focused conditions which ensure specific grants are spent in a way that contributes to national or local outcomes; or*
- *Retained in their current form in genuinely exceptional cases only.*

*By the start of the 2015-16 financial year, the Welsh Government must set out how recipients of specific grants can earn greater autonomy in their use by demonstrating their ability to deliver positive outcomes through strong performance.*²⁹

²² Welsh Government, [Outcome Agreements](#)

²³ National Assembly for Wales, Finance Committee, [Welsh Government's response to scrutiny of the Draft Budget 2014-15](#), December 2013

²⁴ Welsh Government, [Business Rates Wales Review: Incentivising Growth](#)

²⁵ Welsh Government, [Response to the Business Rates Wales Review](#)

²⁶ Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), November 2012

²⁷ Wales Office, [Empowerment and responsibility: devolving financial powers to Wales](#), November 2013

²⁸ Welsh Government, [Commission on Public Service Governance and Delivery](#)

²⁹ [Report of the Commission on Public Service Governance and Service Delivery](#), January 2014