



INTERNATIONAL AFFILIATES PANEL

UNITED KINGDOM POSITION REPORT

1. Relationship between local government and central government in the UK, and the main services delivered by local government

1.1 The relationship between local and central government in the UK has been the subject of major reforms, especially over the last two decades, to make it less like a child and parent relationship. Central and local government are now increasingly seen as partners in delivering public services, creating and sustaining thriving communities, improving outcomes for citizens.

1.2 Local councils have a wide range of powers and duties, with responsibility for local matters and delivering day-to-day services. As Place-shapers and strategic leaders of public service delivery in their area, councils have responsibility for service performance, as well as the prosperity and wellbeing of their local communities. Councils have the right to address the priorities of their communities expressed through local elections and they are responsible for providing accountable and transparent leadership which is responsive to the needs of communities and to driving improvement.

1.3 Central government has the right to set national policies, work with local areas to support them and, if necessary, to intervene to avoid significant underperformance. Central government proposes the legislation, subject to Parliament's approval, setting the national framework within which local government works. Its responsibility is to consult and collaborate with local authorities in exercising these rights. It has responsibility and democratic mandate to act in accordance with the national interest, and it has the overriding interest in matters such as national economy, public service improvement and standards of delivery, and taxation.

1.4 The main link between local authorities and central government is the Communities and Local Government department, responsible for national policy on how local government operates, how well it works and how it is funded. There are other central government departments which deal with national policy on local services.

1.5 Historically, local authorities in the UK were permitted only to do things that they had specific statutory powers to do, which had long been regarded as a limitation in acting in the interests of their electorate. This limitation was removed by introducing a form of power described as the 'well-being power' – a power for local authorities in England and Wales to promote the economic, social and environmental well-being of their area – later replaced by the 'general power of competence' to give local authorities an explicit freedom to act in the best interests of their voters, unhindered by the absence of specific legislation supporting their actions. According to this power, no action except raising taxes, which requires specific parliamentary approval, would any longer be 'beyond the powers' of local government in England, unless the local authority is prevented from taking that action by the common law, specific legislation or statutory guidance.



1.6 There are currently 407 councils in Great Britain (not including Northern Ireland): 375 councils in England and Wales, and 32 in Scotland (this figure excludes the smaller town and parish councils which have very limited roles). Local councils are made up of councillors (members) who are voted for by the public in local elections and paid council staff (officers) who advise on strategy, policy, and legal requirements, as well as the size and structure of the organisation, and who help put political policy into action and facilitate the delivery of council services and functions.

1.7 Councils work with local partners, including charities, businesses and other public services providers such as the police and the National Health Service, as well as residents, to deliver on local priorities and they provide a wide range of services, either directly themselves or by commissioning services from outside organisations and business.

1.8 Local authorities in the UK provide over 700 services. Most council services are mandatory by law, some of which are tightly controlled by central government, resulting in a similar level of service across the country – such as to protect vulnerable adults and children, provide housing, or a basic library service – whilst other mandatory requirements leave councils with some discretion over the level and type of service they provide. However, some council services and functions are discretionary and a council can choose to provide them, ranging from economic regeneration projects to pest control services. Councils have a general power to charge for discretionary services provided they are not prohibited by other legislation. In certain cases, central government has powers to ensure that there are consistent standards across local authorities.

1.9 Across the country, local governmental bodies are organised into a mixture of one-tier and two-tier systems. In some parts of the country, typically in more rural areas, there are two levels (tiers) of local government: a county council and a district/borough/city council.

1.10 However, in other parts of the country, typically more urban areas, there is just one level of local government responsible for all local services, known as a unitary authority. There are three main types of unitary authorities: unitary authorities in shire areas; London boroughs; and metropolitan boroughs. In London, each one of the 33 boroughs is a unitary authority, but the Greater London Authority (the Mayor and Assembly) provides a London-wide government and has special responsibility for police, fire, strategic planning and transport.

1.11 In some parts of England, there are also town and parish councils, which are sometimes described as the third tier of local government. These are responsible for services like allotments, public toilets, parks and ponds, local halls, etc. Save for some conduct and elections issues, town and parish councils are not answerable to the district or county councils.

1.12 Councils are now taking part in ongoing discussions about devolution of power with the Government about the services councils deliver, as well as local government funding. Eight devolution deals have been agreed to date and there are ongoing discussions about further deals across the country.

1.13 Councils choose how to organise their operations based on their responsibilities. The main services and responsibilities of UK local authorities:

- Children's services
- Adult social care
- Highways, roads and transport
- Housing
- Planning and development
- Welfare support
- Waste, environmental and regulatory services
- Parks and leisure
- Cultural services
- Protective services (including fire and rescue services)
- Central and other services (including local tax collection – council tax and business rates; election administration; and emergency planning)

1.14 County councils deliver services in their areas, such as public health, children's services, adult social care, public transportation and highways. District councils cover smaller areas within counties, providing local services such as housing, local planning, waste, environmental and regulatory services; parks, leisure and cultural services. They can also be called borough or city councils. Unitary authorities are one-tier authorities responsible for all local services. They can be called a council, a city council or borough council. All local authorities in Scotland and Wales operate under a unitary system. Every part of the UK is also covered by a local authority fire and rescue services. These can be county fire authorities; combined fire authorities and fire defence authorities; and London Fire and Emergency Planning Authority.

2. Funding of Local Government in the UK

2.1 There have traditionally been three main sources of income for local government in England: government grants, council tax and business rates. However, the proportions of these sources vary significantly across the spectrum and geographical area. Some local authorities are more dependent on government grants than others, who raise more in council tax.

- Government grants: These grants have historically been given to local councils to enable them to deliver all necessary local services. Allocations to individual councils are intended to maintain similar levels of service across the country; particularly those statutory services that a council is committed by law to provide. The amount of money each council receives is confirmed annually in the Local Government Financial Settlement. The settlement is calculated using a formula based on population and other local data (e.g. demand for services, deprivation). This also establishes the balance of funding between different tiers of local government.
- Council tax: This makes up the majority of the difference between a council's planned budget and its central funding. Council tax is maintained locally and based on historic property values calculated around the time council tax was introduced in the early 90s. Under the Localism Act 2011, councils are required to hold a referendum on council tax increases if they are above a certain level as determined by the Government (currently 1.99 per cent). Councils have limited discretion over the discounts they can offer. For the first time this year, councils have also been able to add an additional 2% levy on council tax bills specifically to fund social care. This is



known as the 'social care precept'. Though optional, most councils across the UK have chosen to exercise this levy.

- **Business rates:** The rates are set nationally by central government. Historically, the revenue has been passed to central government, paying the rates into a centrally-controlled account managed by the Department for Communities and Local Government. These funds were then redistributed back to councils on a per head basis, as part of the grant settlement. From 2013, councils have been able to retain half of any additional business rates obtained as a result of local economic growth.

2.2 However, following recent Government announcements, the main grant to councils is set to be phased out by 2020. Instead, the Government suggests that councils will be compensated through the ability to retain 100% of the business rates collected at a local level. Some redistributive mechanism is likely to still be necessary given that there is a disparity across the UK in terms of councils' ability to ensure sufficient funding from business rates and council tax alone, with areas of high social need and low growth less able to become self-sufficient and maintain statutory services. The detail is currently being set out and is subject to consultation in summer 2016.

2.3 Councils also receive income from returns on borrowing and investments, interest and capital receipts, sales, fees and charges and rents for social housing built and maintained by the council.

3. Key Pressures

3.1 For local government in the UK, the past five years have been the first phase of an "age of austerity" that looks set to continue indefinitely into the future. It has been a period characterised by major changes, at an increasing pace, across the whole sector.

3.2 Concerns over the longer term financial viability of many local public services, together with the need to quickly make large scale reductions in costs and to put in place greater efficiency, have understandably dominated the thinking of the sector. On the whole, UK local authorities have risen well to these challenges. Having largely "diverted" the most visible impact of the cuts away from frontline services, councils have seen an increase in public trust and support in their ability to manage such changes well.

3.3 This is no small achievement, given that the period 2010-15 saw a 37% average reduction in national Government funding for local councils, whose income overall fell by 15-40% (ironically, with those councils in the most deprived areas experiencing the 40% funding cut).

3.4 Virtually all service areas have been affected by these spending reductions, with housing and planning services being some of the hardest hit. Other services, such as welfare support, parks and leisure, cultural services, and waste, environmental and regulatory services have also felt the impact of these changes in funding. Although relatively protected, with a real terms growth in funding of 7% during this period, children's services have suffered also because of increased demands on them and growing public and Government expectations over their scope and quality. By comparison, although adult social care services were initially protected by councils, over the past 2 years they have contributed



40% of the savings made, given that they are the area of biggest council spending, despite growing public demand to meet the needs of an ageing population.

3.5 Efficiency savings by local authorities have focused on cutting "back-office" support services, and on management delayering to reduce overheads, in order to protect those frontline services most valued by the public. Although all services have been pushed to improve staff productivity, public sector jobs have been relatively protected by councils, but the size of the local government workforce has still reduced by over 16% and wages have been frozen for 5 years, representing a real loss of income for all remaining staff. In many cases also, relatively generous terms and conditions of employment and pension provision have been reduced, creating concerns for councils' future ability to replace a rapidly ageing workforce.

4. Future Challenges and Drivers

4.1 Looking forward to 2020 and 2025, the financial future for UK local government remains bleak. However, over half of senior council managers are positive about the future of the sector, and this number has grown over the past 12 months. This is true, even though over 80% of them are preparing for even more severe levels of financial restraint, and most are predicting a bigger and wider impact on service delivery this time, including on areas such as public health, community safety, and transport and highways.

4.2 The explanation for this apparent contradiction lies in the growing confidence of local government in the UK to take control of its own destiny and, having weathered the initial storms of funding cuts, it's assertiveness in renegotiating its relationship with national Government, by wresting powers (and some funding) from a Government which is determined to permanently shrink the size of the State. (By 2020, public sector spending in the UK as a percentage of GDP will have been reduced to 1944 levels, with growing concerns over fairness in relation to who is most affected, increasing economic polarisation, lack of social mobility, and a breakdown of a social cohesion).

4.3 The main service pressures facing local councils in the UK over the next 5 years will be in the areas of:

- Economic growth and prosperity
- Affordable housing provision
- Growing demand for adult social care (and for its integration with health services).

At the same time, the need for further cost reductions and efficiency measures will continue.

4.4 These will be met not by more "salami slicing", but rather by seeking the freedom to reshape local public services in the form best able to deliver effective outcomes for local people. This will involve bold, whole system transformation, with new service delivery models, new ways of working, and new collaborative, strategic partnerships and alliances. The future structure of UK local government will be a contested territory for some years yet, with no single best model emerging so far.

5. Our Responses

5.1 UK councils are now embarking on the wholesale tearing down of the professional and organisational silos which have been built up over many decades, as they seek to create new forms of public services which are able to support and make more resilient their local communities in a continuing "age of austerity". There is the beginning of a radical re-evaluation of what is realistic in terms of future service delivery locally, and a re-imagining of the outcomes our society requires in the future.

5.2 Most local government managers in the UK see a growing local remit for their council, rather than a diminishing role, as "localism" becomes more attractive and they actively shape the places where people live and work to make them fit for the uncertainties and turbulence of life in the 21st Century. In order to do this, UK councils are seeking actively to become financially self-sufficient, with greater ability to raise money locally and freedom from any reliance on Government grants, by 2020.

5.3 Most senior council managers (76%) see unlocking and stimulating economic growth locally as the highest future priority for their authority. They are also more aware of the clear link between such economic viability and the viability of local public services, particularly as the national Government moves from a funding system for councils based on needs related grants to one based on the local retention of Business Rates and other local taxes.

5.4 For this reason, newly created "Combined Authorities" are seen by most senior council managers as the "best level" for the commissioning and delivery of all major services locally in future (though they see Health, Welfare, and Education being controlled more centrally by national Government-which is already happening as all schools in England are to be taken out of local authority control).

5.5 Combined Authorities will create a new , "whole place" tier of the local state (largely based on the economic footprint of City Regions), which voluntarily brings together a number of local councils in an area, together with Health, Police, Fire and Rescue, and Criminal Justice, under a new democratically accountable elected Mayor. The intention of national Government in the UK is to then devolve greater powers and the ability to raise funds locally to these new bodies, so that they have greater control of all the levers necessary to reshape the places they serve, and the economy of scale to do this more cost-effectively than the current fragmented and siloed system.

5.6 Such "bottom-up" collaborative restructuring of local government and other public services is likely also to see a greater shift towards voluntary merger of some local councils (a trend that has already been taking place for some time now through shared services or management) to create larger "unitary" (all service) councils, which will replace the current unaffordable 2-tier structure of District and County councils. All these new bodies and forms of governance are intended to be vehicles for the major transformation of local public services.

5.7 At the same time, UK councils face the need for deeper and more "honest" engagement with their local communities, if they are not to appear too remote. This approach will seek to offer greater democratic accountability and transparency, whilst also redefining the contract between the citizen and the (local) State. This latter element will be based on "weaning" people off public services on which they have become unnecessarily dependent, and reducing demand from the public through greater co-production and co-delivery ,to create more self-sufficient and resilient individuals, families, and neighbourhoods/communities.



5.8 Similarly, the relationship between councils and the private and the voluntary/community sectors will be redrawn around such engagement, with the aim of their greater involvement redesigning services and delivery to create more "social value" locally in future.

5.9 Such radical innovation by local councils will also involve rapid change in the following priority areas:

- greater use of digital innovation and "big data" analytics to "channel shift" and better target service provision;
- greater local income generation and "commercialisation" (including council owned trading companies);
- more use of "pooled" budgets across public services and different councils, particularly for strategic initiatives or investments;
- radical service redesign through service integration and the "blurring" of organisational boundaries;
- "invest to save" measures to promote better prevention and to reduce public demand and behaviour change "by design"; and
- improved management of all publicly owned land and property assets, to reduce operating costs and provide revenue income streams.

5.10 These key principles will underpin all new initiatives but, to be successful, it is clear that councils will need strong, bold, ethical (political and managerial) leadership, and to retain a deep sense of public service values/ethos. Councils in the UK know that, as they enter the second phase of an endless "age of austerity", and face the greater challenges ahead over the next 5-10 years, this is a test they must not fail. In 2025, it will no longer be local government as we know it, but our future locally is felt now to be in safe hands.