If the localism agenda is to fulfil its potential, councils need the power of the purse

By Democratic Audit

The specifics of the Coalition Government's Localism Act, passed to much fanfare almost exactly two years ago, were controversial and yet they did speak to a political consensus about the desirability of moving towards greater autonomy for local government. Writing about the publication of a new IPPR report, ***Sarah Armitage*** *concludes that if the localism agenda is to fulfil its transformative potential then local authorities need greater spending and tax raising powers.*

The political consensus surrounding the current localism agenda is remarkable, given the vitriol that has historically characterised debates about central-local relations. With the 2011 Localism Act introduced almost exactly two years ago, politicians on both sides continue to claim that delegating greater control over public services to the local level will eliminate unnecessary bureaucracy, increase democratic accountability, and improve public service provision. These are lofty goals, but their delivery depends on devolving greater financial powers than the Localism Act currently allows.

To find anything close to the level of local control that politicians are currently advocating, we need to return to the 1930s – before post-war nationalisation and centralisation, before Thatcherite privatisation, and before the advent performance-based targets under the Blair/Brown Governments. These were the years in which local authorities acted as utility providers and housing developers *par excellence*. Councils began to offer universal health services after 1929, opening 'municipal general hospitals' that were accessible to all residents. They developed their own strategies for improving local economic conditions, lobbying for the needs of local industries or initiating capital works projects to combat local unemployment.

Because local authorities were responsible for such a wide range of activities, they could determine local priorities and provide services accordingly – exactly what politicians are promising from localism today.

Central to this system, however, was the fact that local authorities also commanded considerable control over their finances. Councils could determine their overall revenue levels by setting rates as they saw fit, supplementing block grants from central government to meet local needs. These decisions profoundly affected local election outcomes. Comparisons were continually made between similar local areas based on the rates levied and the levels of service provided.

Such local variation seemingly smacks of 'postcode lotteries,' which the current system of centralised service provision has sought to avoid. Yet recent historical research found that, contrary to generally accepted wisdom, a council's political composition was more significant than inhabitants' wealth in determining local public spending on various medical services; a similar pattern seems to have emerged today in Sweden's decentralised and democratically accountable system of health care. In other words, the wishes of local inhabitants, as reflected in election outcomes, have proved paramount in determining local authorities' financial decisions and levels of service provision.

Returning to the experiences of local authorities in the 1930s – another prolonged period of national austerity – helps to illuminate the importance of adding real financial power to politicians' promises about the efficacy of local-level decision-making. Under the current system, the overwhelming majority of revenue decisions occur centrally rather than locally. Councils cannot raise local rates much more than inflation without triggering a Whitehall-mandated referendum, nor can they borrow enough to finance much needed infrastructure projects, including self-financing homes that could help to meet local demand. Councils also need greater support in adopting more innovative mechanisms for raising revenue or accessing finance beyond traditional tax, borrow, and spend models.

IPPR has recommended addressing these issues with the goal of doubling the share of locally-collected revenue to 50 per cent, and earlier this week published a report arguing for 'double devolution' to neighbourhoods as well as councils. While there have been some steps in the right direction, policymakers need to push much further the financial reforms on which successful localism depends. The coalition government's cuts to council budgets – upwards of 40 per cent over five years – have also threatened to undermine even this limited progress.

If local authorities are going to deliver on all that politicians have promised on their behalf, they need the power of the purse: meaningful input into revenue as well as expenditure decisions. Increasing local control of public services without this concomitant financial reform threatens to stifle councils' ambition, raise their risk aversion, and thwart the very localism agenda that all three political parties claim to support.

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