Supporting local government every day

LGIU

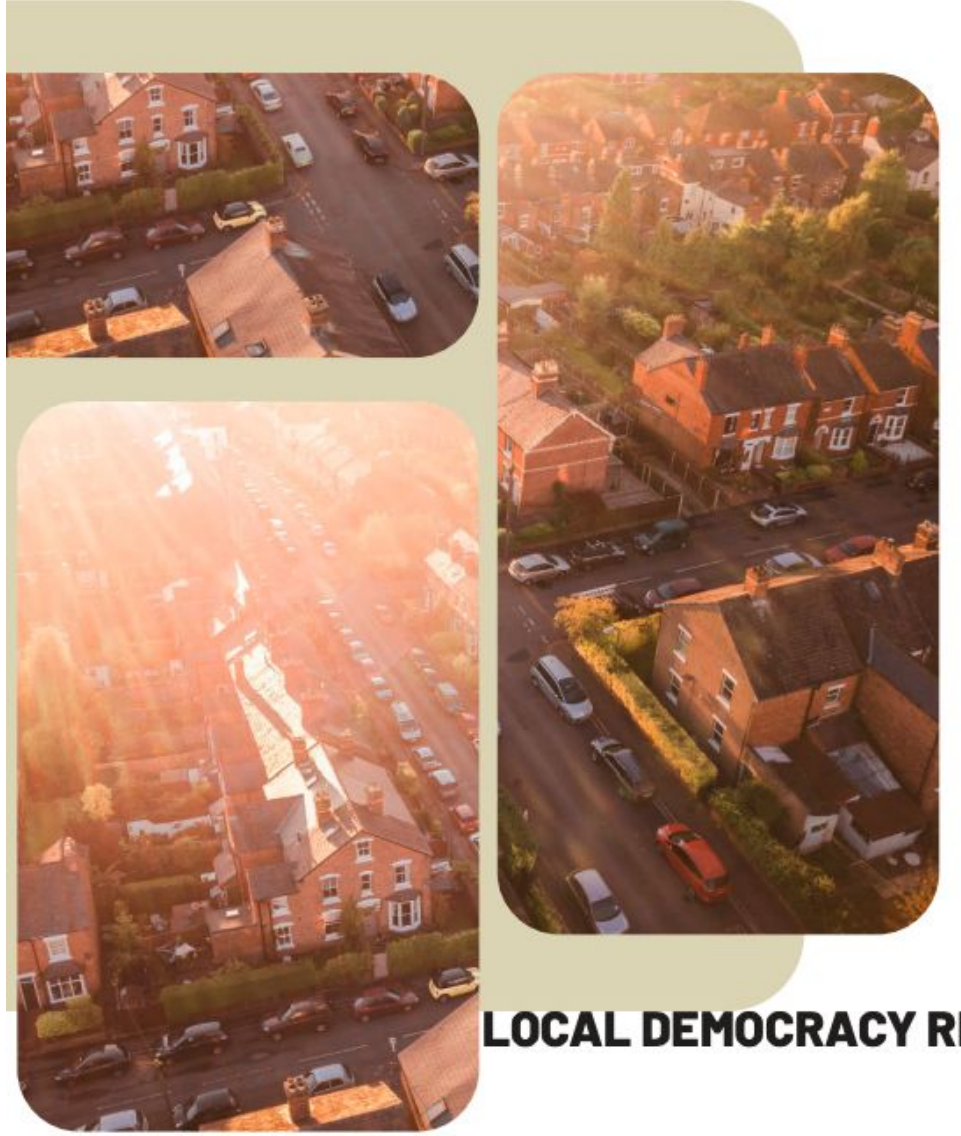
LGIU is a global, not-for-profit membership organisation that has been supporting innovation and best practice in local government for the past 40 years.

We create and curate information, analysis and practical guidance to enable councils to deliver for their communities today.

And we connect them with the ideas, research and networks to empower them to thrive in the future

International local government finance

Lessons from across the globe



LOCAL DEMOCRACY RESEARCH CENTRE

LGiU

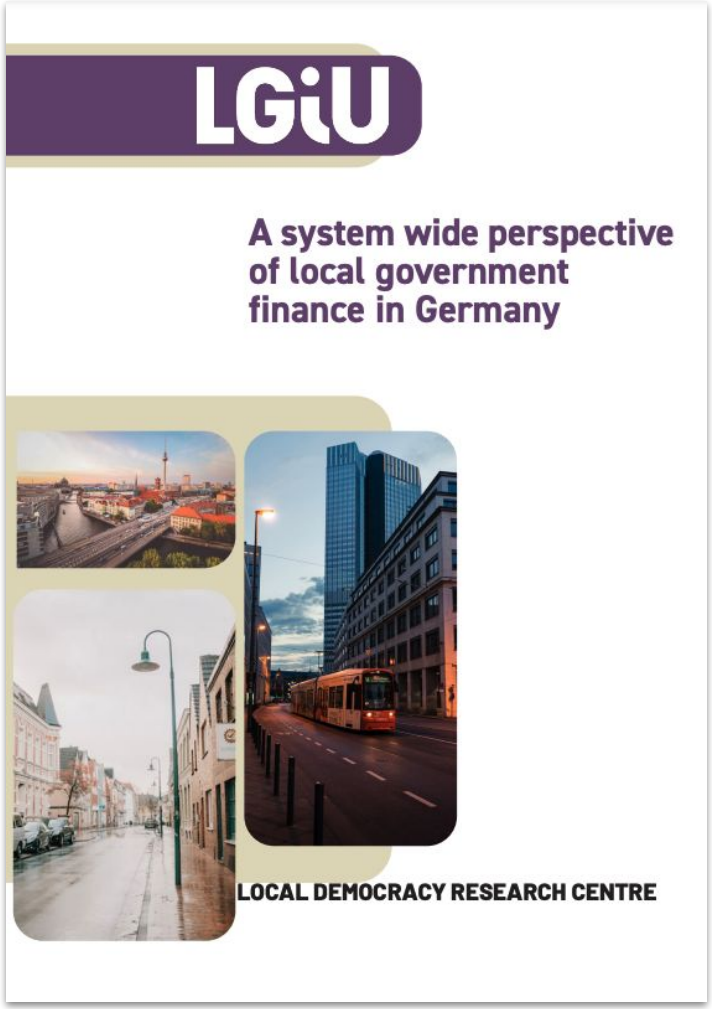
The research so far…

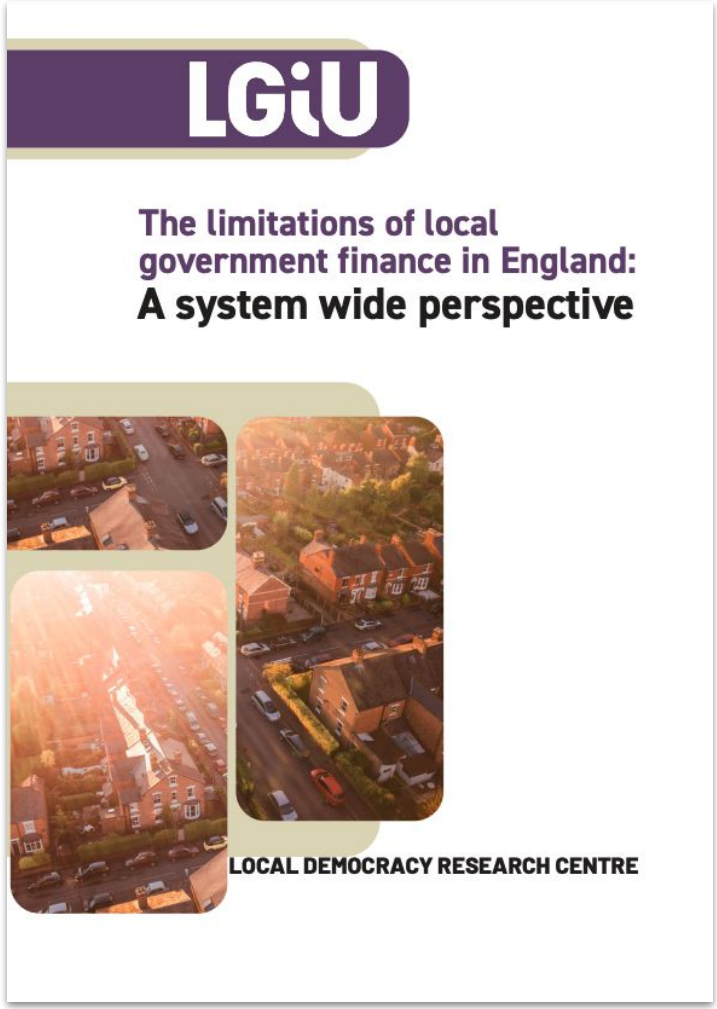
- Two major research projects on LG finance
- Project 1: A series of whole-system analyses of LG finance with the University of Northumbria in different countries across the world, starting with England, Italy, Japan, and Germany. Next we are aiming to do Scotland, Ireland, Spain and France.
- Project 2: surveys of senior council officials across different countries. Starting with England, Scotland next!

Project 1: International Analysis

5 lessons from around the world

The research so far…





Lesson 1: Constitutional definition of roles

- In other countries the relationship between local and central government tends to be defined in written and entrenched constitutions
- This means the structure of local government, the relationship between bodies and the responsibilities of local government tend to be stable and understandable
- Local governments across the countries we have analysed have ‘constitutional protections’
- For example in Germany municipalities have constitutionally guaranteed autonomy - enforceable in the courts

Lesson 1: Constitutional definition of roles

Article 28 (2): Municipalities must be guaranteed the right to regulate all local affairs on their own responsibility within the limits prescribed by the laws. Within the limits of their functions designated by a law, associations of municipalities shall also have the right of self-government in accordance with the laws. The guarantee of self-government shall extend to the bases of financial autonomy; these bases shall include the right of municipalities to a source of tax revenues based upon economic ability and the right to establish the rates at which these sources shall be taxed.

(German Basic Law)

Lesson 2: Revenue-raising + spending options

- In Scotland, there are only a few options for councils looking to raise revenue: council tax (when not frozen), limited fees and charges.
- Most income is received from SG (70%-85% or so) and most decisions on income made at SG level (rates setting, multipliers)
- Other countries have a wider range of options for local revenue raising as well as discretion over spending

Lesson 2: Revenue-raising options

Germany: local business profit tax, property taxes (where municipalities set a multiplier from a minimum level). Then personal taxes such as dog tax, secondary residence tax, liquor tax.

Italy: property tax, vehicle tax, charges on waste, water, street cleaning

Lesson 3: The ‘bottom-up’ approach

- In places like Germany, there is a principle written into their constitution called ‘subsidiarity’
- The principle that everything should be done at the most local level, and only passed up to the next tier of government if it cannot be achieved at a more local level
- But in England (and Scotland) in general powers/responsibilities are by default at the centre
- Verity House: ‘both parties agree the maxim “local by default, national by agreement”. This recognises that public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy.’
- In other countries, this principle has constitutional protection

Lesson 4: Territorial equalisation

- One of the key features of local government financing in other countries is that there are efforts made – as in Japan – to ensure funds can be systematically moved from more affluent places to local places more in need.
- In Germany, funds are redistributed vertically (from *Länder* to municipalities)
- In Italy most redistribution is horizontal via a Municipal Solidarity Fund, managed by the central government
- In contrast, in England + Scotland there is no statutory requirement for any type of equalisation between local authorities, rather it is all down to the discretion of ministers in central government (think of the Levelling Up fund)

Lesson 5: Central-local communication

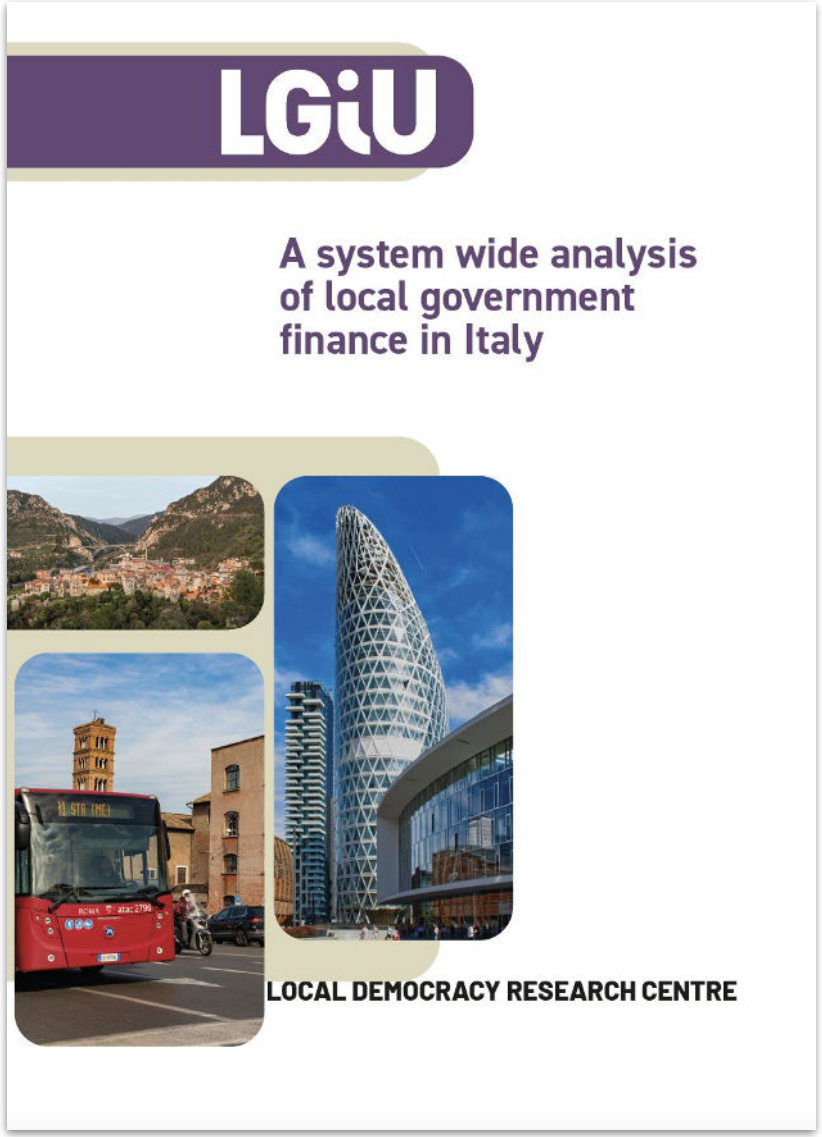
- In many other countries there are formalised networks for central-local communication and decision-making
- In Italy, there is a standing conference (Local Autonomies Conference) to manage central local relationships. This serves to maintain contact, build trust, work through policy challenges jointly.
- Made up of representatives from Italian municipalities and central government. Designed to safeguard local government interests and autonomy – allowing local governments to raise issues, negotiate with central government and find consensus around finance and administration.
- For example, not announcing a surprise council tax freeze

The 5 lessons

- Constitutional protection
- Revenue raising (basket) and spending options
- Bottom up approach (subsidiarity)
- Territorial equalisation (systematic and guaranteed)
- Central local communication

The next steps

- Finish our initial programme by adding Japan and Italy by Christmas.
- Write up our lessons in a single document by the end of the year.
- Then continue with Spain, France, Scotland, Ireland, possibly Australia.



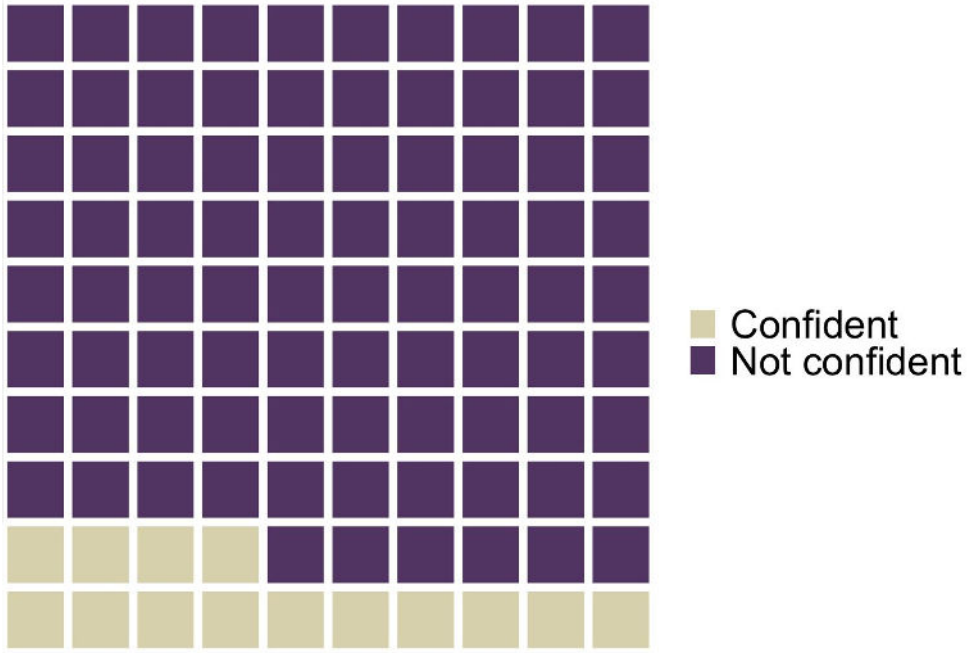
Project 2: Finance surveys

The research so far…

The research so far…

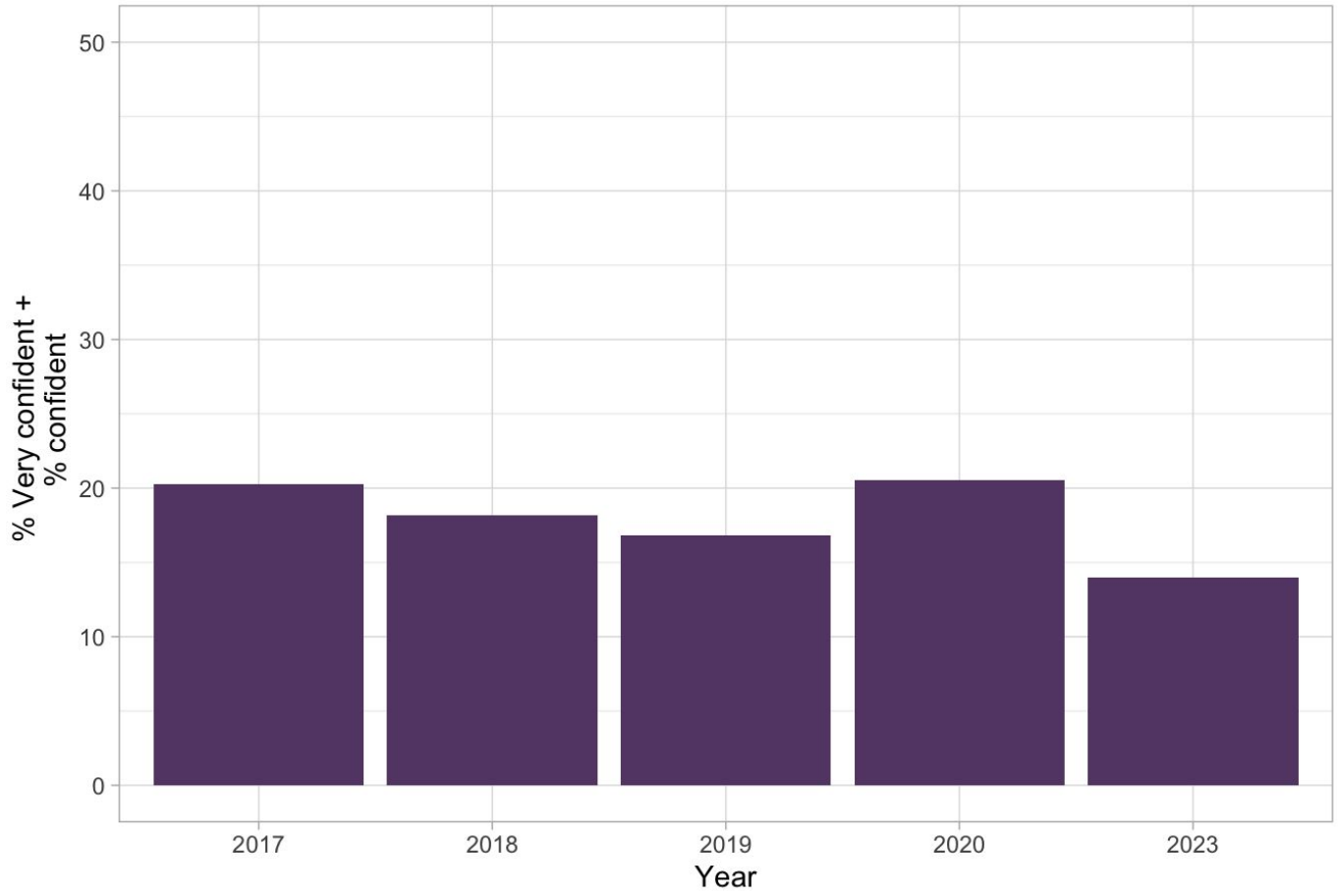
- Aiming to get an inside look at the state of local government finance
- Sent an online survey out to council leaders, chief executives, directors of finance and cabinet members responsible for council resources across England
- Had 160 responses from 138 unique councils. Good spread across types of authority, region and party control
- Crucially, this method can be adapted for other national contexts
- Findings…

Confidence in council finances

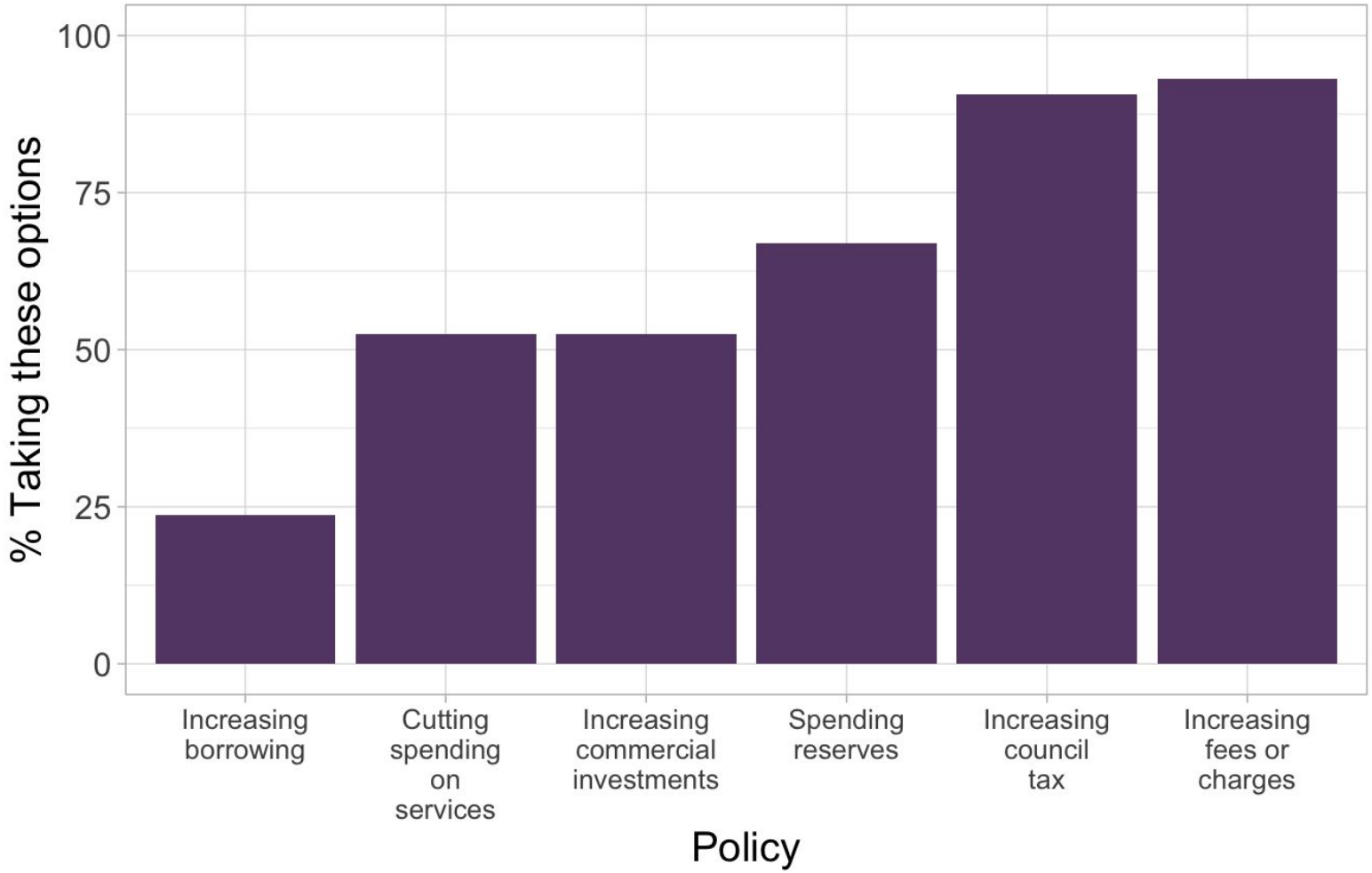


Only about 14% of respondents said they were confident in the sustainability of council finances.

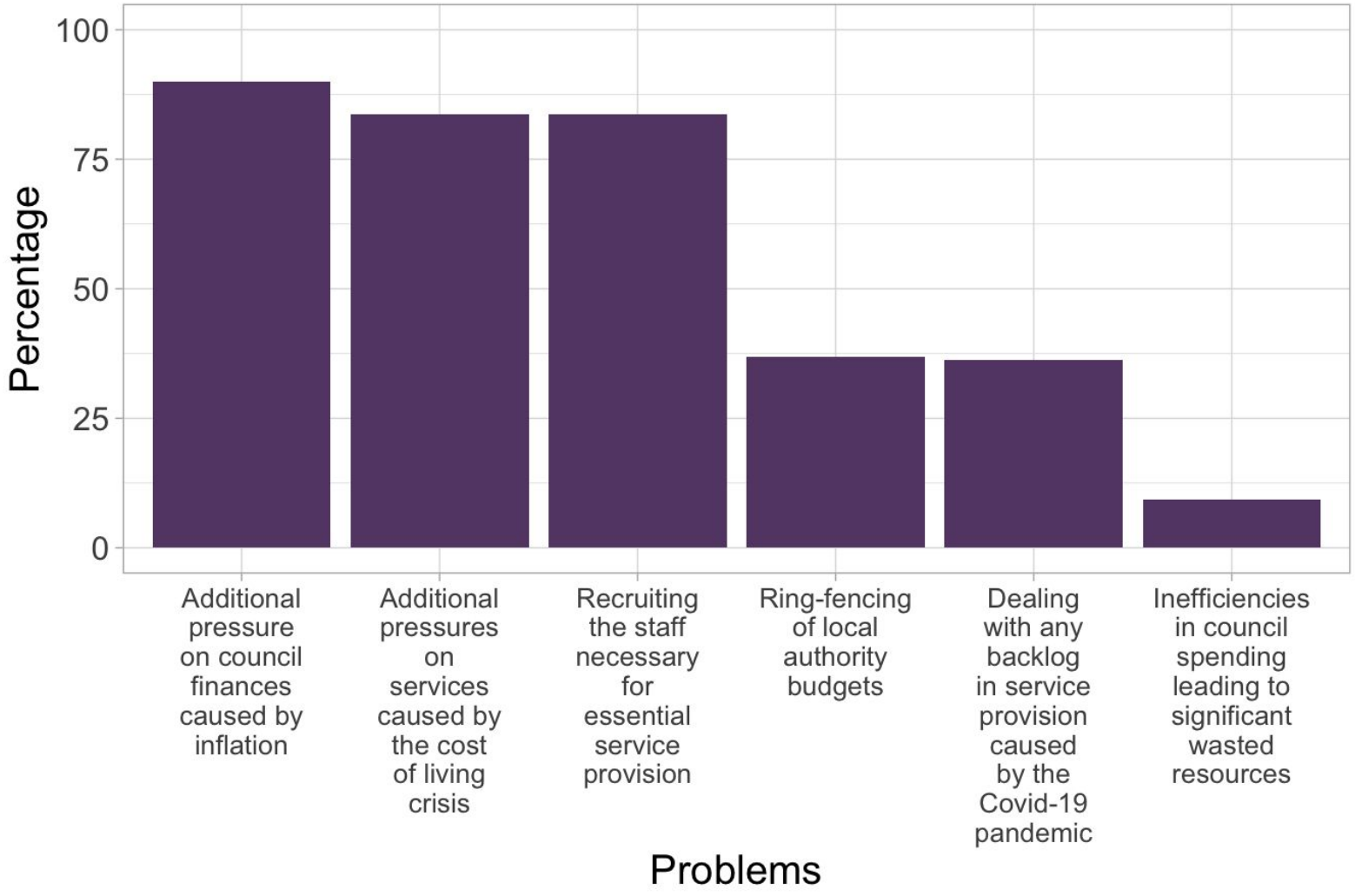
Confidence in council finances



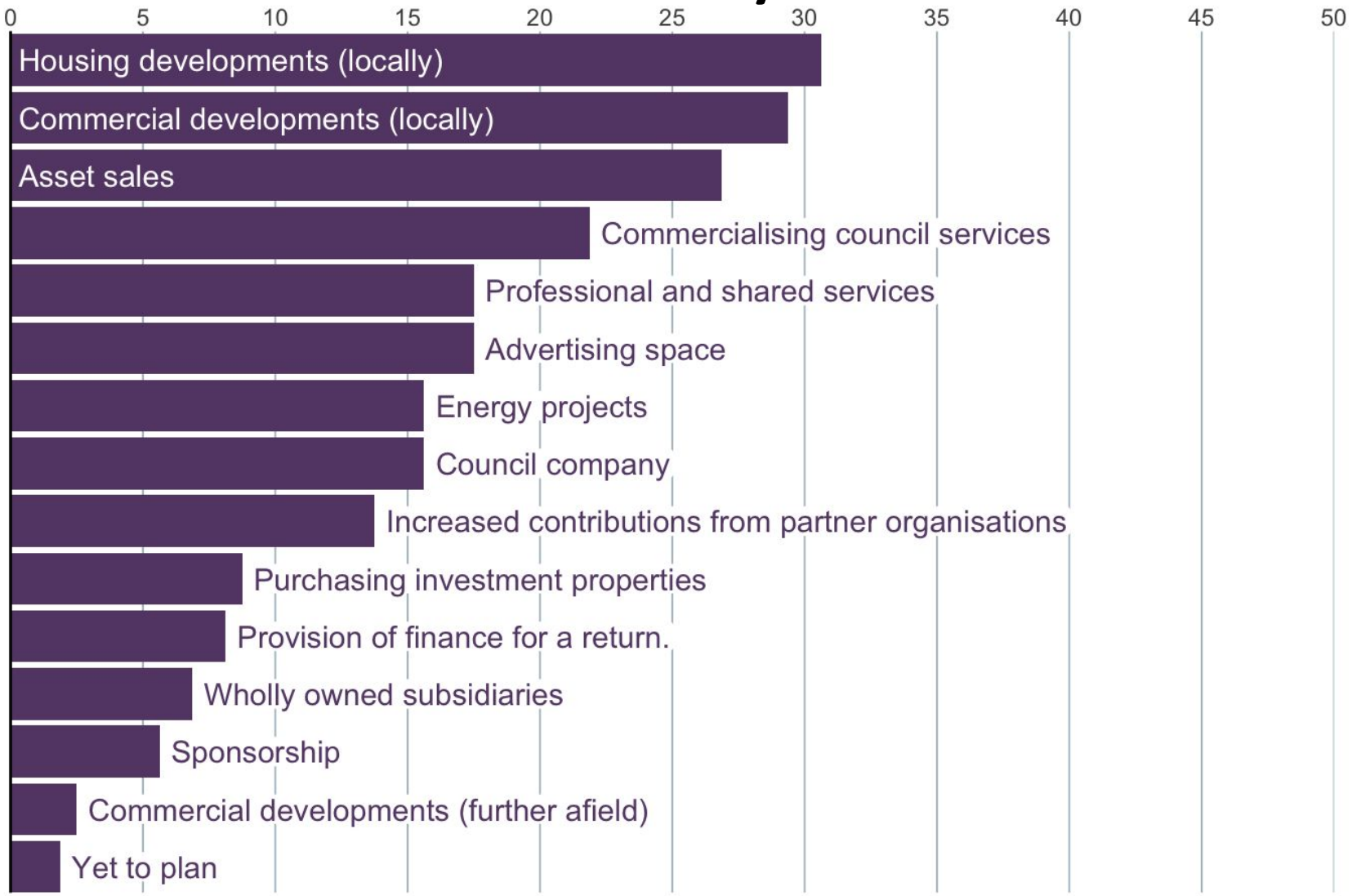
Balancing the budget



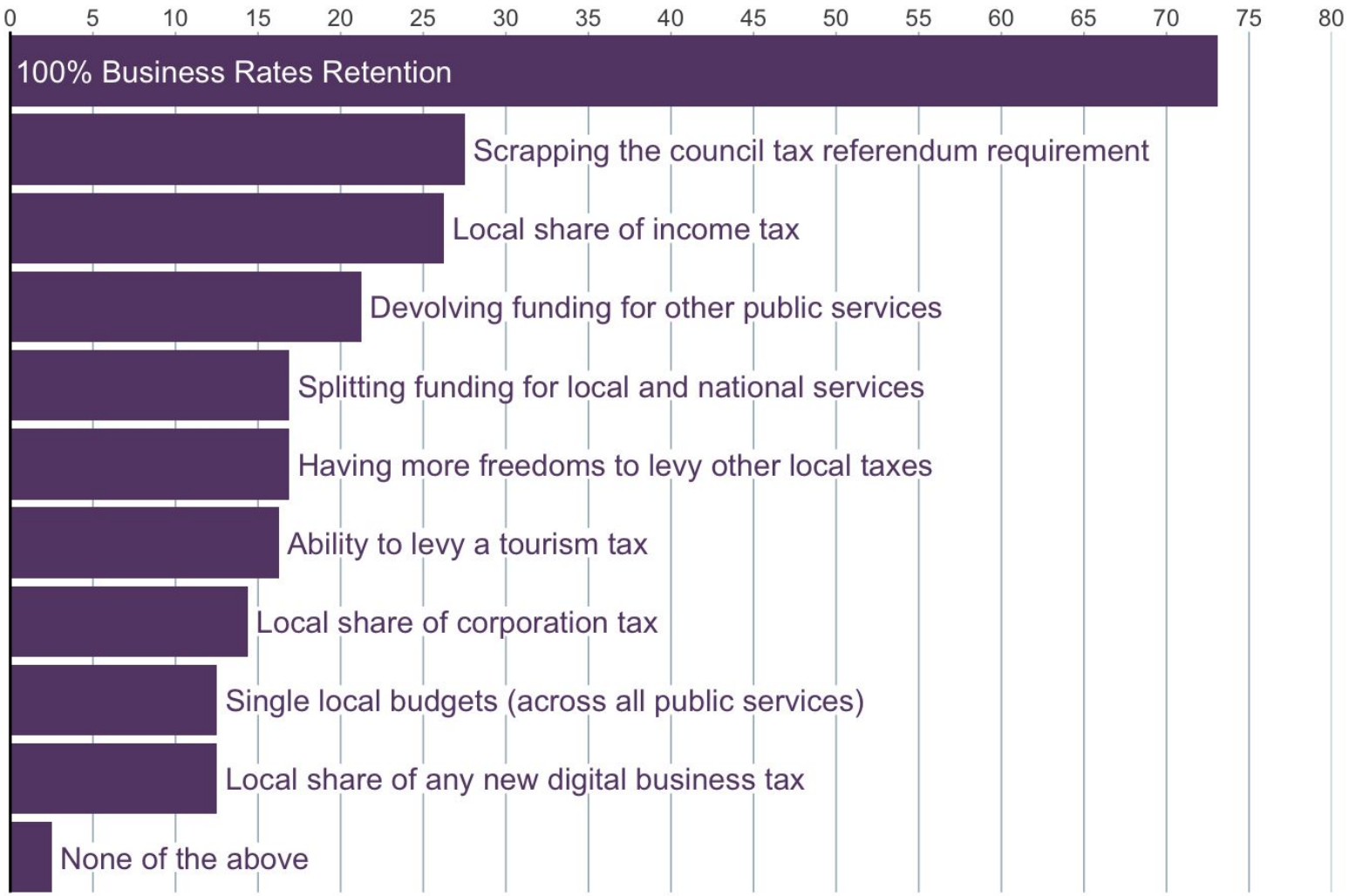
Problems facing councils



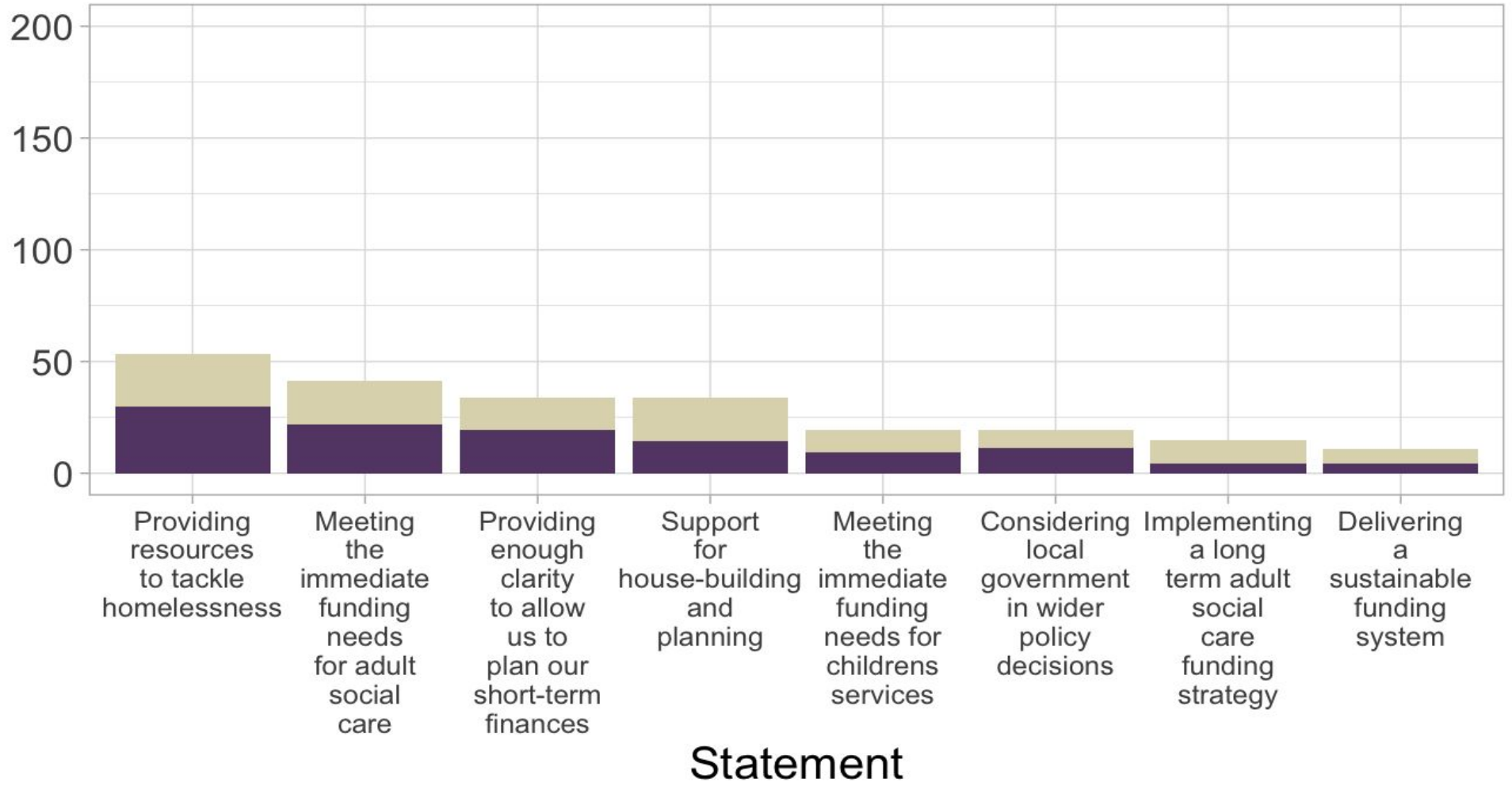
Commercial Activity



Fiscal devolution



Central Government



The next stage…

- Apply these methods in Scotland
- What are the key questions to ask?
- What should we be looking for?
- What would it be helpful for you to know, or helpful for SG/Westminster to know about Scottish local government?
- Our draft so far…

How confident do you feel about the sustainability of local government finance?	Very confident Quite confident Not very confident Not at all confident Don't know/Prefer not to say
In order to achieve a balanced budget in 2024/2025, which of the following will your council be doing?	Cutting spending on services Increasing borrowing Increasing commercial activity Increasing fees and/or charges Spending reserves
Which of these services do you consider to be the greatest short-term pressure on council finances?	Adult Social Care Community Safety Council Support and Public Engagement Culture and Leisure Children's Services and Education Environment and Waste Housing and Homelessness Roads, Planning and economy
Which of these services do you consider to be the greatest long-term pressure on council finances?	Adult Social Care Community Safety Council Support and Public Engagement Culture and Leisure Children's Services and Education Environment and Waste Housing and Homelessness Roads, Planning and economy
Did your authority use, increase or not touch your reserves in the year 2023/2024?	Use reserves Not touch reserves Increase reserves Don't know/Prefer not to answer
You have indicated your council will be cutting spending on services in 2024/25. Do you agree with the following statements:	Residents are currently still able to access the same level of frontline service as this time last year There is a danger that financial constraints will put your authority in a position where you no longer have enough funding to fulfil your statutory duties in 2024/25 The 2024/25 budget will lead to cuts in frontline services which will be evident to the public

In which of these areas will activity be reduced in 2024/25 due to budgetary constraints? Tick all that apply	Adult Social Care/Arts and culture/Business support/Children's Care Services Citizens Advice Bureaux/Education services/Further education/Highways and transport Homelessness support/Libraries/Parks and leisure/Planning Recycling/SEND services/Waste collection/Youth centres
You have indicated that your council will be increasing commercial activity. Which of the following types of commercial activity are you considering? Please tick all that apply.	Advertising space/Asset sales/Commercial developments (further afield) Commercial developments (locally)/Commercialising council services Council company/Energy projects/Expanding professional and shared services to others Housing developments (further afield)/Housing developments (locally)/Increased contributions from partner organisations, e.g. NHS Provision of finance for a return./Purchasing investment properties Sponsorship/We have not yet formulated a plan/Wholly owned subsidiaries Other (please specify)
Which options for fiscal devolution would have the greatest positive impact on your council's finances? Please choose up to THREE	100% Business Rates (non-domestic rates) retention/Ability to levy a tourism tax/Devolving funding for other public services, eg DWP, housing benefits/Having more freedoms to levy other local taxes/Local share of any new digital business tax/Local share of corporation tax Local share of income tax/Single local budgets (across all public services)/Splitting funding for local services (local) and needs-based duties (national)/Other (please specify)/None of the above
Do you agree with these statements about the Scottish Government's performance? 1) I'm happy with the progress that's been made 2) I feel confident that the Scottish government will prioritise the issue	Considering local government in wider policy decisions/Delivering a sustainable funding system Implementing a long term adult social care funding strategy/Meeting the immediate funding needs for adult social care Meeting the immediate funding needs for children's services/Providing enough clarity to allow us to plan our shortterm finances Providing resources to tackle homelessness/Support for house-building and planning
How far do you agree with this statement on the pre-budget process? The Scottish government has listened to my council when forming the budget	Agree, neither agree nor disagree, disagree
Have your council taken part in any bids for UK or Scottish government funding? (For example, the Levelling Up fund)	No - we have not made any bids Yes - None of our bids were successful Yes - Some of our bids were successful Yes - All of our bids were successful Other (please specify)
Do you have any comments on the process of bidding for UK or Scottish government funding?	Open text response

How much of a problem, if any, would you say the following are for your council at the moment:	Additional pressure on council finances caused by inflation Additional pressures on services caused by the cost of living crisis Dealing with any backlog in service provision caused by the Covid-19 pandemic Inefficiencies in council spending leading to significant wasted resources Recruiting the staff necessary for essential service provision Ring-fencing of local authority budgets
Do you have any additional comments on the current problems faced by local authorities?	Open text response
Has the verity House agreement resulted in improved communication between the Scottish government and your council?	Yes/No/Prefer not to say
Do you have any additional comments on the Verity House Agreement?	Open text response
Space for more… (for example on the national care service, participatory budgeting)	

Links and further reading

- Local Democracy Research Centre reports on Italy, Germany and England
- The results of our survey on the state of local government finance in England
- All other LDRC projects, including work on building democratic consent for net zero and an upcoming report on social care in Scotland
- For any other questions on LGIU research, please contact greg.stride@lgiu.org

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