

Tories to overhaul local funding allocation

BY TASH SHIFRIN

Funding allocations for local councils could be set by an independent committee rather than the government under plans being drawn up by the Conservative Party, *Public Finance* can exclusively reveal.

The proposal is aimed at removing allocation decisions from politicians – and from any perception of political bias in the way the funding formula is set and applied.

Shadow communities and local government secretary Eric Pickles said the proposals would mean that, under a Conservative administration, the government would still decide 'the overall level of expenditure', but an independent committee would allocate grant funding.

'I would expect them to apply a formula, make sure the formula was correct, deal with any anomalies in the formula and any technical issues of population or weighting,' he told *Public Finance*.

Such a committee would be made up of 'senior academics with experience of local government and senior officers, plus the odd lay person', Pickles said. 'I'd expect them to be politically completely blind.'

The initiative follows the Conservatives' proposals, announced in September, to subsidise a freeze on council tax increases if they win the next election. The party is expected to flesh out its plans for local government in more detail in a green paper, due out at the end of this month or early November.

But Pickles, a former leader of Bradford council, emphasised that town halls should not fear sharp changes

in finance. 'Everything we are doing is about stability. There will not be any sudden movements,' he said.

'I've run a council and I know how difficult it is. What we've seen with councils over the past 20 to 30 years are these sudden movements. I do understand the need for predictability.'

Along with the independent committee to handle funding allocations – a model that is in use in Australia – Pickles is

proposing wider spending freedoms for councils.

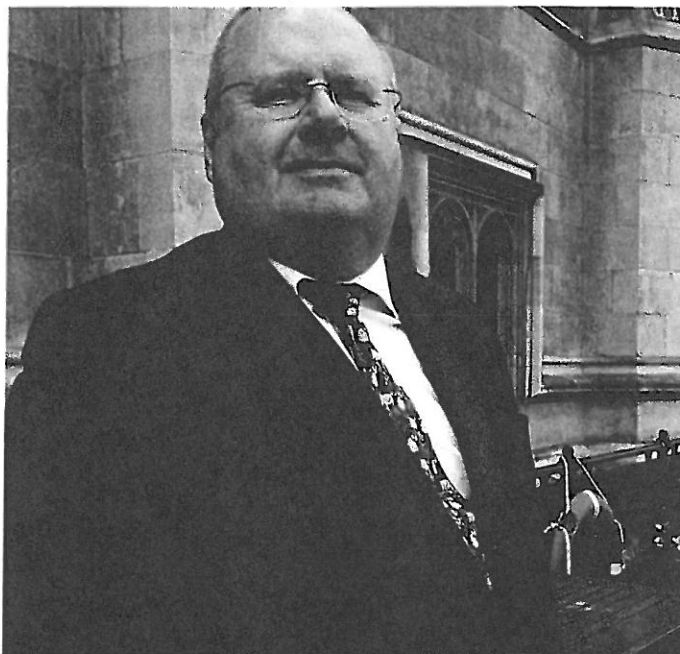
'We will, so far as we can, get rid of ringfencing,' he pledged, adding: 'Of course, the dedicated schools grant will not be touched.' But around 15% of council expenditure is currently 'subject to one form of ringfencing or another', Pickles said.

'If you've got a good formula, you don't need these things,' he said. 'Ultimately, Parliament will decide what the formula will be.'

Pickles also clarified that the Tories' planned subsidy for local authorities that held their council tax increases below a 2.5% threshold could go further than subsidising a freeze. 'It's better than that – they'll get 2.5% whatever the figure [below the threshold],' he said.

This meant a council that set a budget with a 1% council tax increase would receive a 2.5% grant, allowing it to pass on a 1.5% cut in tax bills to its residents.

Labour councils and unions were fearful that the subsidy plan would lead to cuts in services. But Pickles said that most councils were planning rises of around 2% or 3% and would have to make only a small adjustment to come in below the threshold. 'I don't think that's that difficult,' he said.



Blind faith: Eric Pickles suggested a 'politically blind' funding allocation committee, comprising experienced local government officers and academics

Financial crisis and recession will hit PFI schemes, experts warn

BY TASH SHIFRIN

The financial crisis will increase the cost of Private Finance Initiative projects, while the slowdown in the economy could cause further problems if contractor firms are hit, experts have warned.

The warning came as it emerged that Aberdeen Council's £120m 3Rs school building project with private consortium Nyop was underpinned by financing from disaster-struck

Icelandic bank Landsbanki.

The council said it was confident the part-built schools would be completed, although no comment was available from Icelandic developer Nysir this week. Gordon Edwards, Aberdeen's corporate director for resources management, said: 'It was only very recently that Landsbanki was downgraded from the highest credit rating to a lower one – and that was months after the 3Rs project reached a financial close.'

Mike Harlow, a partner in KPMG's infrastructure advisory business, said the state of the financial markets would slow down imminent PFI deals. 'There are a whole load of projects about to reach financial close and quite a significant backlog.'

'Undoubtedly the difficulties the banks are facing has had an impact on the speed that deals are closing, but they will still close.' He added that there were 'a number of schemes where banks have had to be changed at the last moment'.

A three-fold rise in the credit margin charged by banks in the past year would increase the cost of projects, he added.

Nick Prior, senior partner, corporate finance, government and infrastructure at Deloitte, warned that the imminent recession 'will affect contractors that work for government in PFI and PPPs'. Public sector bodies should be 'attuned to the financial robustness of the contractors they are seeking to enter contracts with', he said.