

**SOUTH EAST ENGLAND COUNCILS  
EXECUTIVE COMMITTEE**



Date: 12 November 2014

Subject: Independent Commission on Local Government Finance:  
Consultation on future funding options

Report by: Heather Bolton, SEEC Director

**Recommendations:**

Members are asked to:

- i) Discuss the issues raised in the commission's interim report and how they would affect South East authorities
- ii) Consider whether SEEC wants to respond to the commission by the deadline of 28 November, potentially working jointly with SESL.

**1. Background**

- 1.1 At SEEC's September meeting, Stephen Hughes, a member of the Independent Commission on Local Government Finance outlined the commission's work since its launch by the LGA and CIPFA in June 2014. SEEC and SESL provided [input](#) in August when key requests included:
- Greater local council control over income & borrowing
  - 5-year settlements for any remaining centrally-allocated funding
  - Equal treatment for all local authorities, including those in two-tier areas
  - More transparent funding allocations.
- 1.2 On 30 October an interim report [Public money, local choice](#), set out the commission's emerging thinking and posed 25 questions. Responses are invited by 28 November to help inform the commission's final report in early 2015. The final report aims to influence political parties in favour of local government funding reform in the lead up to next year's general election.

**2. The need for funding reform**

- 2.1 The commission believes the current system of local government finance is broken and the need for reform is urgent. There is also an opportunity for change driven by the scale of local government funding cuts and discussions on how - post Scottish referendum - devolution can be extended to English local government.
- 2.2 Commission views build on evidence submitted about fundamental flaws that make the current system 'fail every test of an effective, sustainable funding regime'. For example, responses argued the system:
- lacks accountability to the communities it serves
  - is virtually impossible for the public or ministers to understand
  - is unfair
  - promotes fragmentation of services instead of integration
  - encourages dependency among councils rather than self reliance and ambition
  - no longer provides a rational basis for allocating grant funding.

**3. The commission's vision, views and questions**

- 3.1 The commission's vision is to build a system that: promotes self reliance; encourages innovation; promotes local decision-making on services; is transparent and clear on division of responsibilities between central and local government; and maintains support for the most vulnerable.
- 3.2 The interim report covers 11 themes, setting out the commission's emerging views and asking for input on 25 questions. These are summarised below.

- 3.2.1 **Self sufficiency:** The commission sees advantages in self sufficiency but recognises that equalisation would also be needed. Questions are:
- a) *Is self-sufficiency the best way forward for the local government finance system? What are the alternatives?*
  - b) *How could an equalisation system work?*
  - c) *What are the potential drawbacks of a self-sufficient system? Could these be overcome?*
- 3.2.2 **Equalisation:** The commission recognises that equalisation is important to ensure all councils have adequate funding for services. Views are invited on how to strike the right balance on equalisation to avoid reducing incentives to grow. By 2018-19 in England council tax and business rate income will exceed central grants, so councils could become self sufficient if they retained 100% of business rates. This would see 274 councils in surplus and 106 in deficit and therefore in need of equalising payments. The report considers whether equalisation could be done within an area or 'unit' of councils rather than nationally, as all areas except the North East would have a majority of councils in surplus. Questions are:
- d) *What is the appropriate balance between equalisation and incentives to grow the local economy?*
  - e) *Under an incentive scheme for retaining business rates, what is the appropriate proportion of additional rates that a local authority should be allowed to retain?*
  - f) *Should any incentive scheme include a 'reset', to allow less prosperous areas to catch up, or should more successful areas be allowed to continue to accrue benefits from their growth without interruption?*
  - g) *Should the method by which we seek to equalise between areas be separate from the system of distributing local government finance?*
- 3.2.3 **Council tax:** the commission believes a property tax is an important part of local government finance, connecting people and the tax they pay to their local area. Nationally set council tax bands do not reflect local circumstances and lack of revaluations has broken the link between the value of people's homes and the tax they pay. Questions are:
- h) *Should councils have the power to revalue properties and set council tax bands? How might this work?*
  - i) *Should councils have the freedom to increase the overall tax revenue after a revaluation?*
- 3.2.4 **Additional revenue:** The commission sees powers for councils to raise additional revenue as important for a sustainable system. It would also allow local areas to weigh up the benefits vs costs of additional charges. Questions are:
- j) *What additional streams of income for local government would benefit their communities?*
  - k) *How would people affected by new local revenue sources be given a voice in deciding how it is raised and spent?*
  - l) *Should an additional tax be permitted to become a permanent source of revenue, or should they be time limited?*
  - m) *What sort of limits, if any, should be imposed on the levels of such taxes?*
- 3.2.5 **Housing:** The commission believes councils have an important role in social housing but their contribution is hindered by caps on housing debt. Questions are:
- n) *Should restrictions on councils' borrowing for investment that pays a return be lifted?*
  - o) *Should councils be allowed to act as registered social landlords?*
  - p) *Would allowing local authorities to 'trade' borrowing headroom enable local government to meet the housing shortage across the country? What other mechanisms could be used?*
  - q) *Should councils control Right to Buy, including having the power to scrap it?*
- 3.2.6 **Stimulating growth:** The commission believes business rates offer 'hints of self sufficiency'. In theory they incentivise growth but tariffs and top ups undermine this.

- 3.2.7 **Local choice vs national entitlement:** The commission argues there should be some services where outcomes are comparable nationally and ask one key question:
- r) *Which local services should be aiming to achieve comparable outcomes across the country?*
- 3.2.8 **Welfare and work:** The commission argues policy around housing, welfare support and training should be developed into a single coherent framework to support the vulnerable, help people gain skills to find work and shift spending from subsidising rents to investing in social housing. Local control of skills would benefit the economy. Questions are:
- s) *How could welfare, housing and skills policies work locally?*
  - t) *What should be the local government role in reducing welfare dependency and developing skills?*
  - u) *Is there a financial model that incentivises councils to reduce welfare dependency?*
- 3.2.9 **Supporting families and children:** The commission argues local support for families and children is currently too fragmented with multiple funding streams for schools and education, adoption, children's public health etc. Question:
- v) *How can we enable local communities to provide efficient, joined up support for children and families?*
- 3.2.10 **Health and social care:** The commission points to rising demand and falling resources as well as the changing needs of an ageing population. There remains limited evidence on effective models of integrated care and how to incentivise this financially. Questions are:
- w) *What is the best way for local government and the NHS to collaborate in the commissioning of health and social care, without another restructuring?*
  - x) *If the principle was adopted of the money following the service user through the health and care system how might this work?*
- 3.2.11 **Financial planning:** The commission sees merit in setting local spending plans for the period of a whole Parliament. It is common sense that councils should have funding allocations as far in advance as possible to help them manage money effectively. Question:
- y) *How could central government support more effective financial planning?*
- 3.3 Member views are requested on whether SEEC should aim to prepare a response to the commission on all or some of its 25 questions. Given the detailed nature of the questions, a full response would need support from finance staff in member authorities. If members wish to submit further South East evidence we would also ask for officer nominations to help prepare a draft response.