

**Response to Independent Commission on Local Government
Finance's interim report: Public Money, Local Choice
November 2014**

1. Introduction

- 1.1 This response has been prepared jointly by South East England Councils (SEEC) and South East Strategic Leaders (SESL). Together we promote the views and interests of all tiers of local government across the South East, representing over 8.8 million residents – the largest population in the UK.
- 1.2 SEEC and SESL members support the role of the Commission and see its work as a vital contribution to the debate on the future of sustainable, accountable local government in all areas of England. Our members valued the opportunity for discussion with Commission member Stephen Hughes when he spoke to a joint SEEC-SESL meeting in September.
- 1.3 SEEC and SESL believe we now have the greatest opportunity for funding reform in a generation, building on the Scottish referendum, the city devolution agenda and Manchester's recent Mayoral announcement. South East local authorities want to see the principles of devolved funding and powers extended to all areas. This has particular relevance to the South East as the powerhouse of the UK economy, where greater local control of funding will allow local authorities to drive further economic growth for national benefit and continue to deliver quality services to the UK's largest population.
- 1.4 The South East's economic track record is impressive – over the past 10 years we contributed £80 billion more in taxes to the Treasury than we received in public spending. London contributed £74bn. However, the South East's contribution to UK PLC cannot be taken for granted – without greater financial freedom and the ability to invest in infrastructure we risk losing the South East's economic competitiveness – not to other parts of the UK but to overseas competitors.
- 1.5 In developing proposals for a new finance system SEEC and SESL want to highlight the importance of marrying political and technical views in achieving widespread support. Clearly proposals need to be technically robust but they must also be politically acceptable for local authority leaders and local voters if a new system is to be accepted and to achieve longevity.
- 1.6 Our submission therefore provides a high level response from South East politicians. Individual member local authorities may also respond with more detailed views based on local experience and expertise, including how some of the technical issues would affect their areas.

2. Need for funding reform

- 2.1 SEEC and SESL endorse the Commission's view on the need for reform and the flaws in the current system as set out in the interim report. This is a long standing view from the South East, as reflected in our 2012 work [Fixing a Broken System](#). Although we recognise there is now an opportunity to achieve greater financial devolution than we expected in 2012, there remains a need for greater transparency and fairness in any funding from central sources and, indeed, in any equalisation process. A new system must offer:
- Greater accountability to communities

- Greater fairness and a more transparent logic in funding allocations
- Greater level of understanding of how the system works
- Support for greater integration of services
- Support for local authorities to be ambitious and innovative
- Greater certainty to support long term financial planning.

2.2 A critical issue for the South East, as a largely two-tier area, is to ensure that there is equal access to funding opportunities for all authorities in a new system. The South East has large county areas, some smaller cities and many rural districts. It is important to reassure South East councils and their voters that they can have equal access to financial devolution deals available to city areas.

3. **Scope of the Commission's work**

3.1 While welcoming the commission's work, SEEC and SESL members would also like to see a focus on capital spending as well as revenue. Certainty and clarity about central government capital investment criteria are critical to the South East, given our need for infrastructure improvements to protect and nurture our position as a global economy and the UK's most profitable area.

3.2 South East councils want to build on our track record as the most profitable UK economy. We have the ambition to deliver more economic growth and greater prosperity but current barriers include lack of access to both adequate revenue funding and capital investment. Greater devolution of revenue funding would allow South East councils to contribute to local infrastructure investment but there will remain a need for central government investment in strategic, cross boundary infrastructure.

3.3 For example, in summer 2014 SEEC and SESL published [Mind the Gap](#), setting out a 10-point programme for capital investment in strategic transport projects to and through the South East. Beyond the means of individual or groups of councils, these schemes show how central government investment is needed to support national economic growth.

3.4 We would like to see the Commission apply principles of transparency and accountability to capital investment. For example:

- A central government commitment to a balanced-risk approach to infrastructure investment. This would balance funding between high economic return projects in the South East – recognising that these will deliver significant benefits for the Treasury – and projects that bring slower economic returns but may offer major social and regeneration benefits in the longer term.
- This should be reinforced by a clear, published set of rules governing the criteria for national capital investment, including the different types of return on investment to be achieved – whether economic, social or linked to regeneration

3.5 Currently, lack of certainty over long term revenue funding also hampers councils' ability to borrow to fund capital projects. Giving councils greater certainty and control over income streams should be accompanied by more freedom to use Tax Increment Financing (TIF) to borrow against that income so they can contribute to capital investment that will stimulate economic growth.

4. **Interim report questions by topic**

Self sufficiency (questions 1-3)

1. *Is self-sufficiency the best way forward for the local government finance system? What are the alternatives?*
2. *How could an equalisation system work?*
3. *What are the potential drawbacks of a self-sufficient system? Could these be overcome?*

- 4.1 Councils in membership of SEEC and SESL are ambitious to move forward to become more self sufficient. Politically there is some variation in views on the degree of self sufficiency in the South East, as its success would depend on commitments made by central Government. To be acceptable there would need to be a negotiated agreement between local and central government on how central decisions affect councils' ability to raise funds and the responsibilities that councils hold. For example a national decision to align inflation rises to CPI rather than RPI could significantly alter councils' income. Likewise devolution of funding streams followed by nationally-led increases in councils' responsibilities could find local authorities once more struggling to make ends meet financially.
- 4.2 While views differ on the extent of self sufficiency, there is clear support for a significantly greater level of local control over income. The current extent of council dependency on centrally-controlled funding undermines local democracy. Councillors would welcome a clearer link between local services/investment and locally-controlled funding. This would enhance local accountability and increase voter awareness of decisions, helping to revitalise local democracy. However to achieve this aim, fund-raising and spending decisions must be decided directly by democratically-elected councils.
- 4.3 Where there remains a need for central funding to be distributed, SEEC and SESL members want this to be led by the local government sector as a way of ensuring greater transparency and buy-in from local authorities. Again, giving democratically-elected councillors the lead in these decisions is vital to achieve better transparency and accountability.
- 4.4 South East authorities fully recognise the importance of equalisation in local government funding to ensure all areas have access to adequate funding to meet local needs. However this must be accompanied by two factors:
- Clarity over the factors used in calculations – equalisation should be conducted in a way that is open and accountable to the residents who are funding or receiving equalisation payments
 - A clear position on incentives to ensure successful councils are not unduly penalised for success and to ensure that councils in receipt of equalisation payments are incentivised to become more self sufficient.

Equalisation (questions 4-7)

4. *What is the appropriate balance between equalisation and incentives to grow the local economy?*
 5. *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?*
 6. *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?*
 7. *Should the method by which we seek to equalise between areas be separate from the system of distributing local government finance?*
- 4.5 In weighing up the balance between equalisation and incentives SEEC and SESL members favour a balance towards incentives. They recognise the importance of equalisation but are keen to make sure that a new system should not encourage over-reliance on equalisation or negate the benefits of local growth. A focus on incentives will:
- Allow successful councils to see immediate, clear benefits from their actions to drive growth
 - Encourage less successful areas to focus efforts on developing their local potential and to move towards becoming more innovative and ambitious.
- 4.6 Moves towards greater incentives will need to be carefully designed to ensure they are linked to achievable outcomes. It is also important that they do not unnecessarily

exclude some councils from achieving the desired results. This is currently the case with New Homes Bonus as some authorities with large areas of protected land – such as green belt and environmental designations – have limited ability to build in large numbers and therefore generate payments.

- 4.7 SEEC and SESL favour equalisation being carried out within the South East area rather than nationally for the following reasons:
- There is likely to be a greater level of public acceptability and understanding of the problems to be overcome if funds are reallocated to neighbouring areas rather than to unrelated and unknown areas
 - The levels of disparity within the South East are as much – if not greater – than they are nationally. Despite perceptions of the South East as universally wealthy, our area has 484,000 children and older people living in income deprivation, a significantly higher number than in the North East. The scale of deprivation in the South East is often underestimated and undervalued in current national allocations of funding.
- 4.8 SEEC and SESL favour 100% devolution of business rates to councils as an open, transparent and equal way of funding local government. It will, however, be important to supplement this with other sources of locally-raised income to ensure businesses do not carry an undue burden in funding local government.
- 4.9 Another key element of equalisation that needs to be built into a new system is equal treatment in terms of funding and powers for all local authorities. At present cities and devolved administrations have additional funding streams and powers not available to the majority of two-tier local authorities in the South East. Many of our members see this as an unfair constraint on the South East, which delivers a GVA of £203bn, compared to a combined GVA total of £147bn for England's 8 core cities (2012 figures). Our members would like the opportunity to access options such as Manchester's deal to earn back a share of all taxes generated in the area.

Council tax (questions 8-9)

8. *Should councils have the power to revalue properties and set council tax bands? How might this work?*
9. *Should councils have the freedom to increase the overall tax revenue after a revaluation?*
- 4.10 South East local authorities support greater local control over council tax in all respects. The present council tax system is roundly criticised but – among the electorate – it remains the best recognised link to local democracy. Changes to the system could help build local accountability through council tax by:
- Giving councils powers to set council tax and annual increases without central government restrictions.
 - Allowing councils the option of setting council tax bands and discounts locally in response to local circumstances.
 - Allowing occasional revaluations, which would include the ability to increase the overall amount of tax collected. However, the frequency of revaluations should be limited to provide taxpayers with some certainty about their future contributions.

Additional revenue (questions 10-13)

10. *What additional streams of income for local government would benefit their communities?*
11. *How would people affected by new local revenue sources be given a voice in deciding how it is raised and spent?*
12. *Should an additional tax be permitted to become a permanent source of revenue, or should they be time limited?*
13. *What sort of limits, if any, should be imposed on the levels of such taxes?*
- 4.11 SEEC and SESL members strongly support changes to give councils the ability to raise new revenue income from the widest possible variety of sources. They believe

this approach would significantly increase interest and participation in local democracy. It is that local involvement that should be allowed to direct decisions on tax levels and give local taxpayers a say in how the money is used. This would give local residents and businesses a far more direct relationship with tax levels and outcomes than currently, where business rates and council tax levels are effectively set by central government.

4.12 Proposals for additional sources of revenue put forward by SEEC and SESL members are set out below. Imposition of new charges should be for local discretion and subject to local democratic support. Support for new sources of income for councils covers:

- Full control of council tax (as outlined above in para 4.10)
- The ability to set and keep 100% of business rates (as outlined above in para 4.8)
- Retention of stamp duty on South East property transactions
- The ability to set and collect small new local taxes such as hotel/ tourist taxes
- The ability to set and charge fees for some local services
- Greater freedom for councils to operate trading accounts
- Powers to tax undeveloped housing sites – for example the ability to charge 50% council tax after planning permissions remain unused after a period of time.

Housing (questions 14-17)

14. *Should restrictions on councils' borrowing for investment that pays a return be lifted?*

15. *Should councils be allowed to act as registered social landlords?*

16. *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?*

17. *Should councils control Right to Buy, including having the power to scrap it?*

4.13 The South East has some of the highest property prices in the country, so provision of sufficient affordable housing is an important issue facing local authorities. Many councils are keen to play a role in delivering affordable homes and would welcome the following:

- Changes to the HRA borrowing cap to maximise local council house building potential. SEEC and SESL members would particularly support changes that reflected the strong return on investment potential that South East development projects can offer.
- Greater local control of right to buy to allow South East councils to manage the supply of affordable homes better. For example 100% local retention of right to buy receipts would allow councils to reinvest in new homes when existing stock is sold. Members also support the ability for councils to set right to buy discounts to reflect local circumstances and property prices.
- Many councils would welcome the ability to act as Registered Social Landlords to help ensure an adequate supply of socially rented affordable homes. Changes to state aid would support this ambition as, at present, the rules can prevent or significantly delay local authority investment in housing projects where they are deemed to be in competition with other developers.

Local choice vs national entitlement (question 18)

18. *Which local services should be aiming to achieve comparable outcomes across the country?*

4.14 Local authorities' individual responses will cover this issue, reflecting a variation in views across the South East.

Welfare and work (questions 19-21)

19. *How could welfare, housing and skills policies work locally?*

20. *What should be the local government role in reducing welfare dependency and developing skills?*

21. Is there a financial model that incentivises councils to reduce welfare dependency?

- 4.15 SEEC and SESL members strongly support greater integration of services at local authority level to deliver more co-ordinated support for individuals and families. Local authorities are best placed to lead local service integration and ensure that support is targeted to local needs and circumstances based on both their democratic mandate and local knowledge.
- 4.16 Devolution of skills funding to local government would help ensure a better match between commissioning of training and local employers' needs. Greater local authority input into design and commissioning of the Work Programme and Youth Contract would also ensure services are tailored more effectively to local needs. Local authorities, alongside Local Enterprise Partnerships, also perform an important brokerage role to facilitate links between local businesses and education providers to ensure that young people are equipped with the employability skills they need to succeed at work and are able to make a successful transition into further training and / or employment, e.g. through apprenticeships.
- 4.17 Financial incentives to reward councils for success in moving people from welfare into work would be very welcome. These could be generated by allowing councils to access some of savings generated by other agencies.

Supporting families and children (question 22)

22. How can we enable local communities to provide efficient, joined up support for children and families?

- 4.18 SEEC and SESL members would welcome simplification of the current multiple funding streams for children and families. Streamlined, integrated funding streams would underpin a more joined up multi-agency approach to safeguarding and protecting vulnerable children and young people. Local authorities, with their democratic mandate and oversight of the whole system, are optimally placed to lead an integrated, multi-agency approach to delivering children's services, as they are demonstrating through successful delivery of the Troubled Families programme. By eliminating current duplication in the system, local authority political and financial leadership would deliver better value for money.
- 4.19 Support to children and families could also be improved by strengthening councils' role to scrutinise and hold all schools to account, regardless of management and governance arrangements. This, alongside the devolution of skills funding and commissioning to local government, would enable councils to lead the integration of the full spectrum of education and welfare to work services around the needs of the individual and their families.
- 4.20 Further joined up support for children and families could be achieved through collaboration between councils and central Government to deliver workforce reform and multi-agency training and development.

Health and social care (questions 23-24)

23. What is the best way for local government and the NHS to collaborate in the commissioning of health and social care, without another restructuring?

24. If the principle was adopted of the money following the service user through the health and care system how might this work?

- 4.21 The future of health and social care is a priority for South East local authorities who face significant demographic pressures from an ageing population. The South East has the UK's largest population at 8.8m residents (2014 figures). We also have the UK's largest and fastest growing older population. By 2024 there will be more than 2m people aged over 65 and more than 1m aged 75+. The South East also has above average numbers of self funders – reaching 80% in areas such as Surrey.

- 4.22. SEEC and SESL members want to see greater powers and incentives for local authorities to lead integration of health, care and blue light budgets and services. In a time of constrained public spending it is important that the whole public sector maximises its efficiency. Rationalising services and sharing back office services can help achieve this aim. Changes outlined below would deliver locally accountable decision making based on in-depth knowledge of local needs. It would allow informed decisions to be made on the balance between health prevention or cure spending and allow local authorities to apply their experience of cost-effective service delivery to the wider public sector. Specific proposals include:
- Give local authorities the leadership role to drive forward integration. Councils have an excellent track record in leading partnership work, an excellent understanding of local needs and the democratic mandate to lead this work.
 - Council-led partnerships should be given responsibility for establishing, then managing a single commissioned, single budget for health and social care. This will improve South East residents' experience of health and care by better aligning services. It will also deliver better value for money.
 - As a step towards a single health and care budget, streamline the health system and incentivise greater integration of commissioning for social care, community health services and primary care by extending the Better Care Fund. Combining the clinical expertise of the NHS with councils' procurement, public health and commissioning skills, and their knowledge of local communities, will deliver better outcomes more cost effectively.
 - Incentives should also encourage integration of local blue light services in the South East under local authority leadership. This will reduce costs, increase prevention work with older people and ensure the most appropriate emergency response when it is needed.
 - Give councils responsibility for NHS estate management and procurement. Councils have proven ability to deliver value for money and this approach will free up NHS resources for more patient-focused health professionals, while cutting duplication, waste and bureaucracy.

Financial planning (question 25)

25. How could central government support more effective financial planning?

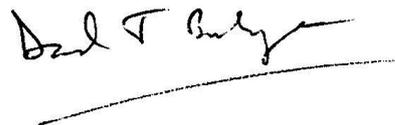
- 4.23 SEEC and SESL members want 5-year settlements for local government to maximise efficiency in managing budgets and resources. However members would prefer to see a rolling settlement rather than funding linked to parliamentary terms. Aligning funding to parliamentary term creates the risk of a hiatus at each change of government, so we would prefer to see a rolling programme that would still allow an incoming government to review its priorities but give councils time to plan for the changes.

We would be pleased to discuss any of the issues in our submission with you.

Yours sincerely



Cllr Gordon Keymer CBE
Chairman
South East England Councils
Leader, Tandridge District Council



Cllr David Burbage MBE
Chairman
South East Strategic Leaders
Leader, Royal Borough of Windsor and Maidenhead

About South East England Councils and South East Strategic Leaders

South East England Councils (SEEC) was established in 2009. It is a membership organisation representing all tiers of local authority. The SEEC area covers Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey. SEEC's objectives are:



- To strive for a **fair funding deal** for the South East
- To promote the South East's position as a **leading global economy**
- To act as **single democratic voice** for South East interests
- To **monitor the pulse** of the South East.

SEEC is chaired by Cllr Gordon Keymer CBE, Leader of Tandridge District Council.

Contact: Heather Bolton, Director, heatherbolton@secouncils.gov.uk; 07966 865525

South East Strategic Leaders (SESL) is a partnership of upper tier authorities committed to nurturing the engine room of the UK economy and promoting public service excellence. SESL supports its members to create the conditions within which individuals, communities and businesses thrive. We aim to:



- **Influence** – speaking with a stronger, united voice for South East strategic councils.
- **Inform** – producing robust evidence relevant to practice.
- **Inspire** – connecting people, sharing ideas, sparking innovation.

SESL is chaired by Cllr David Burbage MBE, Leader of Royal Borough of Windsor and Maidenhead.

Contact: Philippa Mellish, Policy Manager, sesl@hants.gov.uk, 07841 492507