Financing English Devolution

The **Independent Commission on Local Government Finance** was established in 2014 to examine the system of funding local government in England and recommend how it can be reformed to improve funding for local services and promote sustainable economic growth.

The Commission's vision is for a finance system that: promotes self-reliance and self-sufficiency, encourages entrepreneurialism and innovation, promotes local decision-making on service delivery, is transparent, including when dividing responsibilities between central and local government and maintains support for the most vulnerable.

SEEC and SESL provided input in both August and November including key requests:

- Greater local council control over income & borrowing (e.g. retention of business rates and stamp duty)
- 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.

On 18 February 2015 the Commission's final report *Financing English Devolution* set out its recommendations to government for reforming the local government finance system. **Their key recommendations include:**

- Over a 10 year period, the devolution of powers, funding and ultimately taxes to local government
- Freedom for all local authorities to set council tax and council tax discounts and retain 100% of business rates and business rate growth
- The opportunity for 'Pioneer' areas to have single place-based budgets covering a full range of public services and to manage equalisation across a sub-national area.
- Multi-year settlements to enable effective long-term planning and provide more certainty
- An independent review to assess whether local authorities are appropriately funded to meet their statutory duties (e.g. social services)
- An independent body to advise the government on the funding needs of local government and on the allocation of funding to local authorities and 'sub-national areas'.

A table summarises these recommendations as compared to the SEEC and SESL asks which were included in our responses to the Commission last year.

The Commission places the **national and local benefits of reforming the finance system** through devolution to local government into three categories:

- **Growing the economy:** local input on infrastructure, skills, and other place-based investment, with understanding of local needs; ability to address the full range of local issues holistically
- **Transforming service delivery:** new ways of working needed as funding cuts continue; scale of reform required is not achievable under the current system
- **Strengthening accountability for the spending of public money:** decisions made closer to voters.

The Commission's recommendations include arguments for the following:

- **Variable pace of reform**: benefits for all local authorities, with additional opportunities for those capable of reforming faster (described as Pioneers in the report)
- **Self-sufficiency and equalisation:** the Commission recognises there must be strong incentives at sub-national level, with protection for individual authorities, as over 100 local authorities would be unable to fund their services with 100% business rate retention and no grants.
    - Sub-national areas are defined by the Commission as areas aggregated into groupings of sufficient size and economic coherence. Variation is larger within areas than between areas.

    - The Commission recommends two levels of equalisation for Pioneer areas:
        - Between sub-national areas managed by central government
        - Within sub-national areas (e.g. London, West Yorkshire) managed by the area itself
- **Place-based budgets:** the Commission proposes a **single budget settlement** for Pioneer areas, determined by central government, to grow from 40% of services (2015) to 100% (2025)
    - Over time, all public sector services to be devolved, except a few (e.g. defence, justice system), with an independent body advising on this
- **New burdens funding:** must ensure councils are not susceptible to unfunded additional responsibilities (weakening the 'new burdens doctrine').

Principles for fiscal devolution: the Commission believes the principles identified by the Smith Commission on further devolution of powers to the Scottish Parliament provide a basis for discussion on fiscal devolution within England. Adapted to the context of England, they are as follows:

1. Sub-national areas should keep the financial benefits of their policy decisions and bear any costs.
2. The initial devolution of taxes should be accompanied by a reduction in the block grant equivalent to the revenue forgone by central government.
3. Where either the national government or the sub-national areas make policy decisions that affect the tax receipts or expenditure of the other, the decision-maker will either reimburse the other if there is an additional cost, or receive a transfer from the other if there is a saving.
4. The sub-national fiscal framework should provide sufficient additional borrowing powers to ensure budgetary stability and provide safeguards to smooth spending in the event of economic shocks, consistent with a sustainable overall UK fiscal framework. The sub-national areas should also have sufficient borrowing powers to support capital investment.
5. Once a revised funding framework has been agreed its effective operation should not require frequent negotiation.
6. The sub-national areas should seek to expand and strengthen independent scrutiny of public finances.

What does this mean for the South East?

- Following the recommendations to **form sub-national areas** could be a larger challenge for the South East than for some other parts of the UK, due to the large number of councils in the South East and the high proportion of two tier areas. The South East welcomes the principle that policy opportunities currently available to city regions should be extended to allow the South East access to the same opportunities.
- The opportunity for **more devolved taxes**, e.g. business rates and stamp duty is welcome. SEEC's recent research with Local Government Futures showed that, within the South East, business rates alone (£3.79bn) are forecast to provide more income than non ring-fenced government grants (£2.93bn) in 2015/16. If South East councils were to have full control over business rates, this would reduce their dependence on central government funding and increase self-sufficiency.
- The prospect of **funding equalisation** within sub national areas rather than UK-wide will help provide strong incentives for South East councils to invest in their own economy and services, whilst still protecting areas with less potential. With £80bn profit for the Treasury over 10 years, the South East is the UK's most profitable economy. However, the success of the South East economy as a whole means that the diversity of the area can be overlooked. For example, the South East has almost double the number of people living in deprivation (484,422) than the North East (253,569). Lack of understanding of issues like this leads to the South East losing out on much needed funding and investment, a problem which could be addressed by devolved funding with equalisation managed within the South East.
- Local authorities must begin to **prove they are ready and able to reform**, with Pioneers within the South East able to support other local authorities through the SEEC & SESL network.