

**Item 4**

***Rewiring Public Services: Rewiring Finance***

**Purpose of report**

At the LGA conference we launched *Rewiring Public Services* and its sister 'Financial Sustainability' paper. This paper looks at taking forward the propositions on financial sustainability with particular emphasis on a funding settlement for the lifetime of the Parliament and the Barnett Formula for allocating funds to the devolved nations.

**Summary**

The propositions in *Rewiring* are ambitious and radical. The objective is to get traction for them with the main political parties. We therefore need to develop our thinking, the evidential case, promote the proposals and also identify the stepping stones that take us on the journey towards our end goal.

**Recommendation**

Members to discuss the developing thinking and plans to take it forward.

**Action**

Officers to act on any comments members have.

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**Background**

1. At its annual conference, the LGA launched *Rewiring Public Services*. It sets out a new model for local government. Financial sustainability is one of the key pillars and reform of the local government finance system is at the heart of the campaign. On 12 September, the LGA Executive agreed a programme of future action. This report is attached at **Appendix 1**.
2. Of the ten 'big ideas', there are several inter-related proposals on financial sustainability. The Finance Panel are being asked by the Executive to oversee the development of three of the big ideas and provide member guidance on:
  - 2.1. the replacement of the Barnett formula;
  - 2.2. local government led re-distribution; and
  - 2.3. a funding settlement linked to the life of the Parliament.
3. In addition, the action plan calls for a paper to develop an action plan for the idea of a local treasury in every place. This will be considered by the Finance Panel at its next meeting in November.
4. There are also 3 actions in *Rewiring* that will be included in the LGA's general work plans:
  - 4.1. freedom from Treasury borrowing restrictions;
  - 4.2. alternative sources of finance; and
  - 4.3. incentives for central government departments to work locally.

**Developing the proposals**

5. Some of the proposals in *Rewiring*, for example on whole place community budgets and a municipal bonds agency, are well rehearsed and familiar to the Panel.
6. On the replacement of the Barnett formula, local government led re-distribution and a funding settlement linked to the life of the Parliament there is more work to do.
7. The report to the Executive suggested that the Panel also take a paper on the Local Treasury. At this meeting we suggest the Panel focuses on the funding settlement and the Barnett Formula, for which there are more detailed notes in **Appendix 2**. The issues of the Local Treasury and local government led re-distribution will be considered at the November meeting.

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8. It is worth re-capping the broad outlines of the proposals we set out in the *Rewiring Public Services* and identifying the main unanswered questions. Taking each of the ideas in turn, we proposed that:
  - 8.1. A Local Treasury would be responsible for local growth, local services and local finances. It would control local taxes, spending and borrowing (we were silent on the benefits system). There would be the potential for new sources of funding which would be a matter for local determination but we did not include options. Further work could also be done on the geography, governance, national change or benefit implied by a Local Treasury. We will be working with groups of councils to develop Local Treasury options and plan to commission an external contribution to the debate.
  - 8.2. The Barnett formula (for allocating funding to the devolved nations) should be scrapped and replaced with needs based funding. Further work could be done to describe a new formula, locate the proposal in wider questions about the treasury function in the devolved nations and the devolved nations' ability to shape public spending, growth and public services. **Appendix 2** looks at this issue in more detail and proposes a way forward.
  - 8.3. A funding settlement over the lifetime of the Parliament would enable councils to invest with far more certainty in economic growth and prevention rather than cure. It could also lead to resources being managed more effectively and to better services, for example by encouraging public service integration. The note attached at **Appendix 2** looks at this issue in more detail and proposes a way forward.
  - 8.4. Funding could be shared fairly around England by taking financial distribution out of the hands of Ministers and replacing it with an agreement across English local government. Current forecasts suggest that local government could be self-funding from council tax and fully localised business rates by around 2018-19. Further work could be done to identify the potential governance models, the basis for re-distribution, the source of the funds to be re-distributed and the challenges, including securing local democratic consent to re-distribute local tax revenue.

**What next – the way of working?**

9. The objective is to get traction for the ideas with the national political parties and commitments in their Election manifestos. The next opportunity for a major reform of local government finance will be the Spending Review assumed to take place in 2015 following the Election.
10. The Appendixes set out our proposed way of working including:
  - 10.1. Engaging the sector through the LGA's existing networks and a fresh wave of regional meetings.
  - 10.2. The involvement of credible partner organisations in developing the ideas.

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- 10.3. The building of alliances on those issues where we can make common cause with other sectors – the 5 year funding settlement is likely to be welcome across the public sector as the basis for better financial planning.
  - 10.4. Detailed work with councils (or groups of councils) on specific propositions that illuminate the implications of a Local Treasury for growth and better public services.
  - 10.5. Analytical work to test our propositions against business as usual scenarios.
  - 10.6. Specific seminars and events where we could involve members of the Panel.
  - 10.7. Communications and public affairs campaigning work to promote the ideas.
11. The Panel are invited to consider how they would like to be involved in developing the *Rewiring* ideas between panel meetings.

**Conclusion and next steps**

12. Members of the Panel are invited to:
- 12.1. Discuss the more detailed notes on Barnett and the funding settlement over the lifetime of the Parliament.
  - 12.2. Raise any issues on the Local Treasury and sector-led re-distribution that could be covered in the November reports to the Panel.
  - 12.3. Comment on the outline ways in which we propose to move forward.
13. Once we have the Panel's comments, we will produce a more detailed and timetabled plan.

**Financial Implications**

14. The costs will be met within existing budgets.