

Appendix A

Final report of the Independent Commission on Local Government Finance (Report submitted to 5 March LGA Executive)

Purpose

For discussion and direction.

Summary

The Independent Commission on Local Government Finance published its final report, *Financing English Devolution*, on 18 February 2015. This report provides a summary of the Commission's conclusions and recommendations, and asks the Executive to consider its response in the context of its wider work on devolution in England.

Recommendations

That the LGA Executive consider:

1. the recommendations of the Independent Commission on Local Government Finance in the context of the Executive's broader work on devolution in England; and
2. how the Local Government Association can promote the Commission's recommendations with member authorities, MPs, civil servants and other stakeholders, as it seeks to influence the policies of the next government.

Action

Officers will take action as directed.

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Final report of the Independent Commission on Local Government Finance

Background

1. The Independent Commission on Local Government Finance was established by the Local Government Association and the Chartered Institute of Public Finance and Accountancy in May 2014.
2. The Commission's terms of reference were to:
 - 2.1. Identify the strengths and weaknesses of the local government finance system.
 - 2.2. Bring forward practical options for reform in the next Parliament.
 - 2.3. Develop and test those proposals against the key challenges facing the country: growth; housing supply; effective welfare provision; affordable health and social care; and early support to families and children.
3. The Commission has been Chaired by Darra Singh OBE, Partner at Ernst and Young. Other members of the Commission are: Alan Downey; Anita Charlesworth; Bridget Rosewell OBE; Jonathan Portes; Paul Gray CB; Stephen Hughes; Stephen Lewis and Professor Tony Travers.
4. The Commission's interim report, *Public money, local choice*, was published on 30 October 2014. The interim report set out: what the Commission had been told; the Commission's vision for the local government finance system; emerging conclusions; and areas that it was keen to explore further.
5. The LGA Executive received a presentation from Darra Singh on 22 January 2015 in which he set out the key areas on which the Commission would make recommendations.
6. The final report of the Commission, *Financing English Devolution*, was published on 18 February 2015 and can be found here: <http://www.localfinancecommission.org/documents/iclqf-final-report>. The LGA's initial response to the report is also attached.

The Commission's proposals

7. The Commission has set out plans for a 10 year programme of devolution that would see more than £200 billion in annual public expenditure being controlled by groupings of local authorities. The proposals balance the desire for incentives for growth with the continuing need for equalisation within the finance system. Its proposals would see a significant transfer of responsibilities for equalisation to sub-national groups of local authorities.
8. The Commission notes that the problems with the local government finance system have been long standing, but that two developments have given reform a new urgency. Faced with the long-term reductions in local government funding, councils and their partners could be far more efficient, effective and creative in their use of the totality of public

money, if they had the freedom. In addition, the debate over more powers for Scotland and the near universal acceptance that decisions are best taken as close to the citizen as possible, have created a rare opportunity to secure devolution within England.

9. The Commission's vision is for a finance system that:
 - 9.1. Promotes self-reliance and self-sufficiency.
 - 9.2. Encourages entrepreneurialism and innovation.
 - 9.3. Promotes local decision-making on service delivery.
 - 9.4. Is transparent in how it works and in the division of responsibilities between central and local government.
 - 9.5. Maintains support for the most vulnerable.
10. In setting out its longer-term vision and programme of reforms the Commission has also been conscious of the concerns about the sustainability of local government and has called for a review of functions and sustainability in advance of the next spending review. The commission calls for the establishment of an independent funding body to carry out the review of sustainability and to have a permanent role in advising central government on funding matters for local authorities and reporting to Parliament on the reasonableness of central government's funding decisions.
11. The Commission recognises that some groupings of authorities are already well placed to take on greater devolution of powers, funding and ultimately taxes, but that others will require a longer period of time to be ready for these reforms. A variable speed approach to reform is set out by the Commission. It makes two broad sets of proposals for change to the local government finance system. The first will apply to all local authorities and the second set of additional changes will support those authorities which are termed 'Pioneers' that are able to and wish to reform at a faster pace.
12. Reforms for all include:
 - 12.1. An independent body to: review the functions and sustainability of local government assessing the capacity of the sector to meet its key responsibilities including those on adult social care in advance of the next spending review; and advise central government on funding for local government — reporting to Parliament on the reasonableness of central government's decisions.
 - 12.2. Freedom to set council tax and council tax discounts and the retention of 100 per cent of business rates and business rate growth.
 - 12.3. Multi-year settlements.
 - 12.4. The ability to raise additional revenue through relaxation of the rules on fees and charges.

13. Reforms for Pioneers include:

- 13.1. Single place-based budgets covering a full range of public services beginning with Employment and Skills, and progressing perhaps through Health, welfare and ultimately assigned taxes and fiscal devolution.
 - 13.2. The opportunity to manage equalisation across a sub-national area.
 - 13.3. Further council tax reforms including the ability to vary council tax bands and to undertake council tax revaluations.
 - 13.4. New local taxes such as tourist taxes, and newly assigned taxes such as stamp duty and airport taxes.
 - 13.5. The establishment of Local Public Accounts Committees to oversee value for money across the totality of the place-based budget.
14. The LGA has previously supported both the ability to introduce new local taxes such as a tourism tax, in its 2014 Autumn Statement submission and elsewhere, and the hypothecation of existing taxes, in the *First 100 Days* and elsewhere.
15. The LGA is supportive of a variable speed approach on issues such as devolution but where all options are available to all local authorities to choose from. The LGA generally supports “pilot” projects only insofar as they will inevitably lead to an eventual roll-out to all local authorities, or all authorities that want it. The commission report sees all authorities having the opportunity of following pioneers over a 10 year period. The Chairman of the LGA, in his response to the findings of the Commission, pointed to the importance that the pioneer areas represent a broad spectrum of authorities.

The Commission’s recommendations

16. The Commission’s full list of recommendations is below. The text in italics after each recommendation shows the LGA’s current position.
- 16.1. That an independent review of the functions and sustainability of local government be undertaken in advance of the next government’s first spending review, to assess whether local authorities are appropriately funded to meet their statutory duties and to certify that all places are sufficiently funded.

The LGA has pointed to the disparity of funding levels in different areas, and the resulting risk to sustainability. It has also called for greater devolution of functions and the required funding to councils (in “100 Days” and elsewhere). Although the LGA has not to date called for an independent review of functions and sustainability, ensuring that councils are adequately funded to meet their statutory duties is line with existing LGA policy.
 - 16.2. The establishment of an independent body to advise government on the funding needs of local government and on the allocation of funding to local authorities and sub-national areas.

“100 Days” calls for an independent body to distribute funding to local authorities, rather than sub-national areas, while the Commission’s recommendation is that the body advise government on distribution.

- 16.3. That the incoming government ends the policy of setting referendum limits on council tax and leaves the decision to local politicians.

This is existing LGA policy which is reflected in a number of LGA publications including “100 Days”.

- 16.4. That the incoming government should devolve council tax discount setting and the power to determine who receives council tax support to local authorities.

This is existing LGA policy which is reflected in a number of LGA publications including “100 Days”.

- 16.5. That 100 per cent of business rates and business rate growth should be retained by local government.

This is existing LGA policy which is reflected in a number of LGA publications including “100 Days”.

- 16.6. That the incoming government consults on the detail of the business rates retention reset as a matter of urgency, exploring options for a partial reset. The Commission also recommends that the independent funding body should advise government on the reset and report on the reasonableness of the government’s decisions.

The LGA has not to date taken a position on how the business rates reset should be executed. How any reset is implemented, whether full or partial, will have a distributional effect on councils but asking for the government to engage with the sector, and allow enough time to ensure that the review is comprehensive would be in line with existing LGA policies.

- 16.7. The review of business rate administration that has been announced by this government must look at the appeals process and propose ways to reduce the time it takes to resolve an appeal, as well as proposing options for reducing the time from valuation in which an appeal can be launched. This needs to be done in advance of the 2017 valuations.

This is existing LGA policy which is reflected in a number of LGA publications including “100 Days” and “Business Rates: the Story so Far” (January 2014) which calls for a streamlined appeals process.

- 16.8. That as part of the review of business rates, the government should consult on options for the localisation of business rate relief.

This is existing LGA policy which is reflected in a number of LGA publications including “100 Days”.

- 16.9. That the incoming government commits to full and clear multi-year settlements to enable effective long-term planning for local authorities and other public sector services.

This is existing LGA policy which is reflected in a number of LGA publications including "100 Days".

- 16.10. One of the key roles for the proposed independent review of the sustainability of local government will be to assess the required level of social care funding and to advise government on the amount of money that will be required to fund social care appropriately in the next spending round.

The LGA has highlighted the inadequacy of social care funding through the Future Funding Outlook and other work. Although the LGA has not to date called for an independent review of this ensuring that councils are adequately funded to meet their statutory duties is line with existing LGA policy.

- 16.11. The Commission supports councils having the freedom to determine fees and charges locally.

This is existing LGA policy which is reflected in a number of LGA publications including "100 Days".

- 16.12. That the incoming government commits to the introduction of place-based budgets for sub-national areas that are willing and able to take on this reform.

The LGA supports the four community budget pilot areas, and its 2015 Budget submission asks that the government "make place-based finance the default method of service funding and delivery."

- 16.13. That sub-national Pioneer areas should be given the power to determine the number and value of council tax bands and when properties are revalued.

Current LGA policy on council tax makes no reference to a variable speed approach but supports this proposal for all councils.

- 16.14. That the incoming government should work with local government to agree a timetable for fiscal devolution, adopting the Smith Commission's principles as a basis for reform.

The LGA's 2015 Budget submission asks that the government "engage in true, meaningful devolution of decision-making powers and funding to the local level."

- 16.15. That Local Public Accounts Committees should be established in Pioneer sub-national areas to scrutinise value for money for all public services.

The LGA has not taken a public position on this but the issue of local accountability will be considered in forthcoming reports to the LGA's City Regions Board and People and Places Board.

16.16. That the government should develop additional freedoms for Pioneer areas in support of national policy objectives such as economic growth and increasing the housing supply. These could include enabling Pioneers:

16.16.1. To develop new approaches to health and social care integration

Current LGA policy is to support this proposal for all councils.

16.16.2. To collaborate with Local Enterprise Partnerships in being entirely responsible for further and adult education, skills and apprenticeships, regeneration and employment support

Current LGA policy is to support this proposal for all councils.

16.16.3. Ultimately to take on responsibility for some welfare to working age adults and some fiscal devolution.

The LGA has, in its review of the 2014 Universal Credit pilots, pointed to the vital role for councils in establishing, leading and commissioning partnerships to deliver support for claimants.

Next steps

17. The LGA Executive is asked to consider:

17.1. the recommendations of the Independent Commission on Local government Finance in the context of the Executive's broader work on devolution in England; and

17.2. how the Local Government Association can promote the Commission's recommendations as it seeks to influence the policies of the next government.



LGA Executive

5 March 2015