



Productive Economy, Productive State

Submission on the
2015 Spending Review

Only within a bold partnership can both the Government deliver its long term economic plan, and local councils continue to fulfil their statutory responsibilities and achieve the ambitions of local communities.

The first few months of the new Parliament has already signalled an appetite for a radical re-aligning of local public services. Many of the measures already announced will change the relationship between citizen and state, the way in which public services are both delivered and held to account. The budget also re-stated that the whole of the public sector remains under significant fiscal restraint and we remain cognisant of the fact that difficult choices are required to eliminate the UK's budget deficit. Whatever choices are made, the next five years will see far-reaching changes to how local people experience local services.

Local government has already more than played its part in meeting the spending challenge. The income that local government has received from Central Government has been reduced by 43 per cent during the last Parliament and all councils' ability to generate income from other sources has been severely restricted.

While it might feel fair, it is also over-simplistic to suggest that the burden of cuts should simply move elsewhere. While local councils can argue cuts to local government made in isolation of other wider public sector reform is now impossible, other local public agencies will also find a further fiscal squeeze not only devastating to their services, but will also result in increased demands on councils. The challenge will only be greater without greater collaboration and innovation.

In partnership with Government, Solace believes Local Government is now uniquely placed as the convener of key local public services. By utilising the experience, management skills and innovation already delivered over the last five years, it is now capable of leading transformative change across a wider range of local services.

Our profession's ambition is to develop a 'place-based' partnership between local councils, combined authorities and Government to ensure we are able to make the necessary transformational change, and deliver the objectives of our local areas. The financial challenges facing the country can only be solved by a step change in productivity in the wider economy, matched by efficiency across the public sector. Local Government is pivotally placed to achieve both.

It is clear that the current system does not function as effectively or efficiently as it could, and much of this is due to over-centralised governance, a confused set of financial incentives between local providers, and an over-reliance of national delivery models that over-regulate delivery at a local level.

The resultant failures created by the system include:

- A mismatch between the supply of skills and the needs of employers continues to hamper growth in many local economies
- Many businesses struggle to access the right support and regulatory guidance at the right time to help them innovate because of the challenge of joining up national, local, public and private business support
- Fragmented, inefficient and poorly sequenced public services which leave too many people trapped in a cycle of dependency, unable to access and progress through work to meet their potential and lead more productive and fulfilling lives
- The failure of a siloed public sector to unlock the potential of sites for development, meaning that the supply of new housing is running well below the 250,000 new homes per annum that forecasts suggest are needed to meet new demand
- Efforts to stabilise the health and care system being seriously hampered by a hugely fragmented structure and an inability to access the resources required to pump prime the investment in primary and community facilities required to enable to reconfiguration of local services
- De-regulated local public transport services that constrain an area's ability to market public transport as a consistent alternative to travelling by car and limits an authority's ability to utilise revenues to meet its wider sustainable transport strategy
- The determination of priorities for the strategic road network at national level or through Highways Agency channels that fail to fully take account of local economic priorities or wider local consequences.

Progress has been made across some of these areas in some places. The Troubled Families programme provides a model example of how strategic place-based co-operation between agencies can deliver significant positive outcomes for families and save the taxpayer money. However, we believe there is still much potential that remains untapped, and seek to create a deal with Government that drives forward transformation at greater scale and pace.

We therefore argue that the upcoming spending review should establish a deal with the whole local government sector aimed at delivering:

- Financial self-sufficiency across local government by 2025 enabled by incremental fiscal devolution
- Devolution of local state spending responsibilities to clusters of local councils to drive productivity across all local public services
- Devolution to clusters of local councils to deliver greater local economic growth and productivity.

Fiscal devolution will free Whitehall of the bureaucracy of proportioning much of its income to local public services and will consequently transform their accountability and responsiveness, and place more influence in the hands of local taxpayers.

Devolution of local spending decisions in areas such as health, welfare and public sector assets will – through whole-systems integration, the rationalisation of assets and processes, and more intelligent commissioning – improve public sector productivity and provide more effective and sustainable local services.

The devolution of powers around skills, transport and other infrastructure will enable more responsive decision making across these areas that will better reflect the needs of local economies and develop a more balanced tax base across the country to in turn move local services towards greater self-sufficiency.

These outcomes are all, therefore, symbiotic and it will be important that progress is made early in this Parliament against all three if Government and taxpayers are to realise the full benefits. Solace believes that by prioritising these reforms, the Government will be able to deliver its medium term financial plan, but also able to reform how local services are funded to ensure they have a place on a more responsive, accountable and sustainable long term footing.

Self-sufficiency

Self-sufficiency across the local government sector is a challenging objective. The inequality of economic performance across the country means that both the residential and business related tax base from which local services currently draw much of their income is unevenly distributed. It will therefore take significant changes to redistribution mechanisms, inter-authority collaboration and growth incentives to ensure that self-sufficiency can be done fairly.

Making councils more 'independent' and less reliant on central government funding simply by cutting the revenue support grant is not uniformly sustainable, and requires measures to temper its uneven impact if local services in areas hit the hardest are not to fail. The distribution of income into local government has changed significantly during the past Parliament. As these changes continue to play out, so the scale and type of risk is also altering. This change in profile needs to be recognised and appropriately shared to ensure the sector's financial future remains viable.

Despite its difficulties we do believe self-sufficiency is an important goal, and should be a more explicit objective of this Government. De-centralised decision-making improves efficiency and effectiveness, and in the long term saves the taxpayer money. But it also has a social dimension that increases choice and transparency enabling taxpayers to take an active role in their government and the decisions that affect their daily lives.

In order to deliver these benefits, we would like the Government to legislate to:

- Award local government a minimum of rolling three year budget settlements during the transition period to self-sufficiency
- Take the important first step of removing all council tax restrictions in acknowledgement of the legitimate financial decision making authority of local democratically elected politicians
- Enable all council tax discounts to be set locally
- Enable local flexibility on the banding of council tax to ensure taxation adequately reflects both the cost of local services and the taxpayers ability to pay
- Enable the setting of all fees and charges locally to enable councils to be responsive to local needs, speed up the planning process and remove the subsidies that distort local markets
- Move to a model of business rate administration based on a self-assessment model which is more efficient and appropriately shares the risk of re-evaluation between the public and private sector
- Over time increase the locally retained share of business rate income to 100 per cent for all areas
- Reduce the duration of the social housing rent reduction to three years in line with the Government timetable to achieve a surplus budget by 2019/20
- Ensure all additional revenue from the pay-to-stay policy for social housing is allocated to local councils and housing associations for investment in new local housing.

Devolution to improve public sector productivity

The interdependence of local services means that organisational boundaries and contradictory financial incentives stifle innovation and slow productivity. Collaboration within local government and with partners has been a fundamental element of local government's financial strategy.

Shared services and community budget pilots, in particular, have demonstrated the potential that greater collaboration brings. While collaboration between public services enables significant efficiencies to be made, separate budgets and commissioning processes still inhibit the extent to which these benefits can be maximised. In some policy areas, however, integration provides the opportunity to go further with reform.

Government would increase the financial benefits of integration if they legislated to:

- Ensure the full force of Government is brought to bear on creating a Local Public Service Fund which enables a place-based budgeting approach for all local public services nationwide by 2025
- Performance manage and create financial incentives and freedoms across Whitehall departments to entrench the place-based budget model and ensure that HM Treasury is able to lock in the generated savings
- Expand the Better Care Fund or create an equivalent programme fund of £2 billion per annum with the intention of fully integrating health and social care budgets overseen by Health and Wellbeing Boards or combined authorities by 2020, to ensure efficiencies, prevention and early intervention benefits are realised across the whole system
- Provide sufficient grant funding to close the social care funding gap
- Invest in a local digital improvement programme to make additional skills and capacity available to the sector in order to drive better outcomes and organisational efficiency at scale
- Provide for the local management and disposal of public sector assets to create 'one public estate' and enable local agencies and partners the same ability to co-ordinate local investment decisions for assets in their area to ensure the most efficient use is made of public sector investment
- Give councils the power to direct the strategic development and sale of publically owned sites and are able to retain receipts from sales of surplus central government land for local investment
- Enable clear and longer term investment agreements which are more efficient, encourage early intervention and the sharing of benefits across all local partners
- Prioritise a place-based budget approach to children and young people's services with, in particular, a more flexible and responsive approach which enables dedicated schools grant to contribute to the funding of school transport and early intervention
- Devolve the commissioning of Universal Credit Support Services to local clusters of councils accountable for outcomes achieved
- Remove the ring-fence on the public health grant to ensure the full benefits of whole-system public health initiatives are realised
- Remove the requirement to directly employ specific non-corporate roles (for example, Director of Children's Services, Environmental Health Officers) which slow the creation of shared services and other alternative approaches to service delivery
- Simplify existing regulations and guidance in areas such as welfare, volunteering and equalities which have created unintended consequences and impeded innovation and greater public involvement in the provision of public services.

Devolution to improve productivity in local economies

The strength of a local economy will impact on the fiscal robustness of local public services in the same way that the national economic performance determines Whitehall's fiscal health. An unbalanced national economy therefore implies an unbalanced fiscal position locally, and without the levers to promote growth and productivity, a local area's public services will never become self-sustaining.

To remedy this, the Government needs to:

- Introduce an expansive local growth fund for capital spending by combined authorities within devolution deals, which includes local transport, flooding protection, digital, business support and skills-related allocations (such as apprenticeships, Job Centre Plus support and 16-19 funding) and ensures that the size and scope of the pot is sufficient to make the investment in co-ordination proportionate
- Align European Union funding with the single local growth fund and include the decentralisation of the European Regional Development and Social Funds within this pot
- Simplify and pool existing incentives for growth to create a separate 'growth incentive fund' allocated to individual local authorities to manage the impact of growth on local communities and vary the level of incentive to reflect the ability of an local area to attract investment and allow for targeted incentives that enable national re-balancing
- Allow councils to retain 100 per cent of receipts from the sale of their assets, including housing, to enable reinvestment and the building of more new homes
- Amend the sale of high-value council homes policy to exempt homes built after 2008, because of the likely level of debt, and specialist housing for vulnerable people that help reduce health costs
- Amend the definition of high value homes to reflect the local housing market, rather than council housing stock
- Ensure the duty to sell high-value council homes is time-limited to minimise the negative impact on asset management and housing investment plans
- Remove the housing revenue account borrowing cap which restricts local authorities ability to play a full part in stimulating economic growth through house-building
- Simplify and afford more local control over the right to buy scheme to remove restrictions on reinvestment and better reflect local housing market conditions
- Ensure the extension of right to buy to housing associations adequately compensates associations to ensure homes are replaced locally and they continue to invest in new affordable homes that councils can use to fulfil their statutory housing duties
- Rationalise expensive governance arrangements for economic growth and transport funding with a focus on building sustainable consistent partnerships between business and local representatives
- Abolish the Skills Funding Agency and create a central-local government partnership to promote strategic oversight of locally delivered skills and employment initiatives
- Give all areas powers to use local taxation, through levies and new local taxes, to more effectively fund infrastructure investment
- Enable 'devolution' to proceed nationwide to enable all communities able to benefit from the advantages available by involving them in decisions.

GRAEME MCDONALD

graeme.mcdonald@solace.org.uk