Public Document Pack

City of Westminster

Committee Agenda

Title:	**Westminster Scrutiny Commission**
Meeting Date:	**Tuesday 18th November, 2014**
Time:	**7.00 pm**
Venue:	**Rooms 3 & 4 - 17th Floor, City Hall**
Members:	**Councillors:** **Ian Adams (Chairman)** **Brian Connell** **David Harvey** **Tim Mitchell** **Barrie Taylor**

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Andrew Palmer, Senior Committee and Governance Officer.

Email: apalmer@westminster.gov.uk; Tel: 020 7641 2802
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS OF INTEREST** To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.	
3.	**MINUTES** To approve the minutes of the meeting held on 16 July 2014.	**(Pages 1 - 6)**
4.	**QUESTION AND ANSWER SESSION AND UPDATE FROM THE LEADER OF THE COUNCIL** Report of the Head of Cabinet Secretariat.	**(Pages 7 - 12)**
5.	**LOCAL GOVERNMENT ASSOCIATION FINANCE REFORM PAPER** Report of Scrutiny Manager.	**(Pages 13 - 30)**
6.	**EVALUATING THE EFFECTIVENESS OF POLICY AND SCRUTINY** Report of the Scrutiny Manager.	**(Pages 31 - 34)**
7.	**WORK PROGRAMME** The next stage of the reorganisation of the Council's officer structure is now the subject of consultation. The Chief Executive suggests that a further meeting of the WSC be held in December to consider this and receive a presentation from him. The WSC is asked to consider if they wish to have an additional meeting.	
8.	**ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**	

Peter Large
Head of Legal & Democratic Services
10 November 2014

This page is intentionally left blank

CITY OF WESTMINSTER

MINUTES

Westminster Scrutiny Commission

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Westminster Scrutiny Commission** Committee held on **Wednesday 16th July, 2014**, Rooms 6 & 7 - 17th Floor, City Hall.

Members Present: Councillors Ian Adams, Brian Connell, David Harvey, Tim Mitchell and Barrie Taylor

1 MEMBERSHIP

1.1 There were no changes to the membership.

1.2 Councillor Ian Adams was appointed as Chairman for the municipal year.

1.3 The Committee noted that, in future years, open nominations for the Chairmanship should be requested from Commission Members in preparation for an election and appointment at the first meeting of the municipal year.

2 DECLARATIONS OF INTEREST

2.1 Councillor David Harvey declared that, in relation to Item 3 (Growth Deal for London) he was a Director of The Family Firm Institute and former President at the Institute for Small Business and Entrepreneurship.

2.2 Councillor Barrie Taylor declared that, in relation to Item 3 (Growth Deal for London) he was a member of Paddington Youth Enterprises Ltd.

2.3 Councillor Tim Mitchell declared that, in relation to Item 3 (Growth Deal for London) he was a Governor of City Lit.

3 MINUTES

3.1 The Committee agreed the minutes of the meeting held on 9th April 2014 as a correct record.

4 GROWTH DEAL FOR LONDON

4.1 Mr Steve Carr, Head of Economic Development, introduced the report which provided an overview of the Growth Deal for London which had recently been agreed between Government and the London Enterprise Panel, the Mayor of London, London Councils and London boroughs. Mr Carr summarised the context of the Growth Deal including the negotiations, opportunities arising from the Deal and Westminster's involvement to date and going forward.

4.2 Members were informed that negotiations in respect of the employment aspects of the Growth Deal for London had been led by Westminster's Chief Executive (jointly with the Chief Executive of the London Borough of Islington) on behalf of partners across the Greater London Authority (GLA), Central London Forward (CLF - the partnership of the eight central London local authorities); and London Councils. This negotiation produced a pioneering agreement regarding the delivery of employment services and the provision of better access to jobs in the growing economy. It is also a route to securing greater freedoms, flexibilities and funding to drive growth and jobs in London. The CLF will now work in partnership with London Councils, the GLA, the London Enterprise Panel and Government, to establish a joint project team to develop a time-limited, five-year initiative for Employment Support Allowance claimants in Central London.

4.3 Mr Carr explained that the Deal has embedded within it key principles around local government service reform, collaborative working; and the devolution of services to enhance local authorities' ability to support economic development and growth. In fact through the negotiation, significant commitments on devolution had been secured, thereby ensuring that success will unlock a series of progressive steps towards further local service integration across London.

4.4 Majeed Neky, Senior Policy Officer, provided Members with an overview of the next steps in the process and its implementation. Mr Neky explained that, over the next three months, alongside the detailed design of the scheme, a timetable will be agreed for specific steps towards devolution linked to the performance of the initiative. There will also be a detailed agreement on how successful performance of the initiative will lead to the approach being extended to other areas of London and scope widened to address other services. Ultimately there is an aspiration to negotiate to retain a share of the savings created, through reduced expenditure on benefits and reduced demand for broader public services, by helping people into work.

4.5 Mr Neky explained that the initiative will see each claimant working with a single, multi-skilled caseworker, over a long period of time, to help them implement a plan of action which addresses their individual needs. This will involve a multi-agency approach, working closely with existing council, health and voluntary sector services, to provide specialist support such as mental health provision or specific skills training to guide the individual through their journey towards work.

4.6 The Committee discussed the tension between the 'supply' of families and unemployed residents requiring assistance and the demand for both sustainable employment and housing. In agreement with Members, Mr Neky explained that enhancing individuals' skill-set, and working closely with individuals to ensure they have the right skill-set to attain suitable employment, will be key to the programme. In this context Mr Neky detailed that the measures included an allocation to the London Enterprise Panel of £65 million for a suite of skills-related enhancement schemes including: capital investment in skills institutions in London; investment in a pilot digital skills programme; greater influence for London to ensure that nationally funded skills provision through the Skills Funding Agency meets London priorities; and support for a single integrated apprenticeships offer for London employers. This will be an excellent platform from which more can be achieved going forward.

4.7 In respect of housing, Members were informed that the Growth Deal also included greater flexibility to borrow money against housing stock in order to deliver more affordable homes. Members heard that Westminster will initially receive £8.5 million of additional borrowing capacity to help deliver more affordable homes and will continue to advocate for flexibility in this area. The Committee discussed the financial details cited in the report and requested that further information be provided in respect of the HRA (Housing Revenue Account) and the aforementioned £8.5 million of additional borrowing capacity.

4.8 In response to questioning from Members regarding whether a 'Westminster-specific approach' had been taken, Mr Neky explained that the main focus for Westminster to date has very much been to support our hardest to help residents to overcome barriers and move towards employment. He noted that the City Council already commissions a range of successful programmes to support residents into employment, including the Workplace Coordinator scheme and the recently launched FACES programme for families with barriers to employment. However, these have been on a relatively small scale compared to the extent of the long-term unemployed cohort within Westminster. The primary challenge for the City Council will be to effectively target those residents with complex needs and multiple barriers to employment, which requires co-ordination locally. Mr Neky further noted that the aforementioned approach of having a single, multi-skilled adviser assisting a small caseload of individuals to guide the individual through their journey towards work, is one which has been built upon the 'Troubled Families' programmes.

4.9 In relation to the role of the specialist adviser, Members noted the importance of ensuring that people with the right level and type of 'life coaching' experience and skills are recruited to the programme. Although the exact specification of the adviser/life coach role had not been defined in its entirety, nor the recruitment planned, Mr Neky suggested that one way in which the advisers' skill-set could be assured was through an 'adviser academy' to train individuals at the same level.

4.10 In relation to the matter of future targets, the Committee were informed that this will be subject to further discussions with Government over the coming months at the design stage. Although the Government has already committed to involving London authorities in co-designing the successor to the DWP (Department for Work and Pensions) Work Programme. The latest evaluation of the aforementioned DWP Work Programme to help the long-term unemployed move off benefits and into sustained employment, showed just a 5% success rate. Specific attention will therefore be given to investigating ways in which a commitment could be made to achieve a higher than 5% success rate, although the measure of "success" in this respect is yet to be defined. Members agreed that interim steps towards employment, which have clear tangible benefits in themselves, should also be evaluated as part of the defined terms of the success of the programme.

4.11 In response to a query from Members around the research which had been undertaken and/or relied upon to support the programme principles and evidence its likely success, Mr Carr explained that a broad range of detailed economic and social research studies had been investigated to inform the approach. He noted that a number of different models (universally) had been considered. The key message taken from the successful programmes related to the necessity to target specific geographical areas and work with communities at a local level.

4.12 The Committee discussed the fact that the concentration of entrenched worklessness in the Borough was located in North Westminster, within social housing and among older residents (50+), with a high proportion of residents experiencing significant barriers to employment, particularly relating to mental health issues. Members discussed the various demographics and circumstances in specific locations within Westminster's Wards, which vary according to a very local 'village level'. The Committee suggested that Ward Members could be integral to providing this type of local knowledge to inform the approach of the programme according to area and requested that consideration be given to how Councillors could usefully provide this local knowledge.

4.13 RESOLVED:

(1) That the report be noted; and

(2) That the Committee be provided with progress updates as necessary.

5 BETTER CITY BETTER LIVES PROJECTS AND ACTIVITIES - END OF YEAR UPDATE 2013/14

5.1 The Committee received the update which provided detail relating to the progress of 120 Cabinet Member Priority Projects and Activities which are linked to the Better City, Better Lives (BCBL) ambitions. Members noted that of these 55 (46%) had been completed and a further 58 (48%) are on track to be delivered in 2014/15 or as part of the BCBL Year 2 programme. However, the remaining seven priority projects in 2013/14 have either missed deadlines or are on hold.

5.2 Whilst Members commended the completion and/or 'on track' rating of the vast majority of projects and activities contained in the report, the Committee fundamentally questioned the usefulness of the measures themselves. Members agreed that it was important to understand the processes which support the achievement of key projects, but emphasised that those process-based elements (e.g. *conducting a review* of the wardens programme or *supporting* a roll-out of Wi-Fi provision) should not be considered to be 'headline' measures of success in themselves. In the future the Committee requested to receive only the few quantifiable, end-user based measures, which relate to the most significant BCBL projects. The Committee further suggested that the strategic performance reports submitted to other formal Council bodies could usefully be revised to reflect this approach next year.

5.3 RESOLVED:

(1) That the report be noted; and

(2) That a recommendation be made to the Leader of the Council in respect of the suggested improvements to the Council's strategic performance reports, as detailed in paragraph 5.2 above.

6 MEMBER DEVELOPMENT AND TRAINING

6.1 The Committee considered the report, which was submitted at the request of Members, to address the issue of continuing training and development for Members of the Council. The report provided an indication of what could be provided and sought a steer on the type and level of training Members would wish to see provided going forward.

6.2 The Committee noted the timeliness of conducting a review of Member training and development, given the recent local elections and the number of new Members who had been elected to the City Council. The Committee recognised that, whilst many Members have a wide ranging and rich skill-set gained academically, personally or professionally, there are many skills and areas of knowledge which are unique to local government and to the role of a Councillor in Westminster. Members' need for adequate training and development should not therefore be underestimated on the basis of assumed knowledge and skills.

6.3 It was noted that Members (particularly those recently elected) are unclear about what training and development opportunities can be provided and, furthermore, what types of training are acceptable to request? This lack of direction and guidance may therefore deter Members from raising requests for training.

6.4 The Committee agreed that whilst offers of training should be reactive to Member requirements on an individual, Council-role or Committee-role basis, officers should equally be proactive in informing Members of the training opportunities available and how these can be arranged or accessed. In this respect, Members suggested that a skills or training audit could usefully be undertaken to ascertain the appetite for different types of training. Members noted that a formal evaluation of the Member Induction Programme was due to be undertaken over the coming months and the aforementioned audit to inform the future direction of Members training could usefully be incorporated.

6.5 The Committee suggested that, as a starting point, the following training and development areas should be explored:

- Basic Council-specific information not covered in the Member induction programme such as key officer contacts at front-line level, as opposed to Strategic Director level;

- A tour of the Borough and site visits to key Council buildings and/or places of significance (i.e. where headline projects are being undertaken);

- Council finances – both in terms of the overarching framework of how local government is funded (external training) and how the City Council's finances operate and are managed at a local level (internal officer-led training);

- Council democracy and governance – how the committee framework and the Leader and Cabinet Member decision-making model operates; how formal reports are prepared; how information can be accessed; and key contacts in this respect;

- How external training providers and/or professional bodies such as Local Government Association, London Councils, Local Government Information Unit and Universities can offer best practice training across a range of areas and functions.

6.6 In respect of accessing information, Members noted that a new Council website had recently been launched, in addition to a new Committee Management system (Modern.Gov). The Committee therefore suggested that all Members should be informed of how to access Committee, Council and Cabinet Member Reports and documents and key contacts in this respect (perhaps through the Weekly Information Bulletin or a one-off bespoke email addressing the matter).

6.7 **RESOLVED:** That the Scrutiny Manager, Head of Cabinet Secretariat and Member Services Manager be requested to consider how Member training can be developed and enhanced going forward, in light of the Committee's suggestions as detailed above.

The Meeting ended at 8.41 pm

CHAIRMAN: ______________________ **DATE** ____________________

Westminster Scrutiny Commission

THE LEADER OF THE COUNCIL'S UPDATE

Meeting on Tuesday 18th November 2014

1. **West End Partnership**

1.1 A great deal of progress has been made by the West End Partnership since the last time that I updated this group around a year ago.

1.2 As Members will recall, the West End Partnership, of which I am chair, was established in 2013, on the recommendation of the West End Commission, to bring together senior representatives from public services, businesses and residents, to provide stronger leadership, greater coordination and a more influential voice for the area. The key stakeholders associated with delivery in the West End sit on the Partnership Board: the Metropolitan Police, the Mayor's Office, Transport for London, Westminster City Council, partners from the private sector, including property companies and residents groups.

1.3 The West End Partnership is a sustainable, long-term approach to fostering and managing the benefits that can be harnessed in the West End for Westminster's residents, visitors and businesses alike, through bringing together a single voice and set of priorities. Through the West End Partnership, Westminster is providing effective place leadership, while recognising that encouraging and shaping economic prosperity and growth, in its various forms, will benefit local communities in the heart of what is a global city.

1.4 Over the past year, while achieving sustainable results across employment, enterprise, infrastructure, public realm, transport and business support, we have revisited our strategic approach, building enduring relationships with our stakeholders to give us a strong platform to deliver for Westminster's residents and businesses in the face of the financial challenges to come.

1.5 The work of the Partnership continues to be channeled through four thematic sub-groups: public realm; transport and infrastructure; the night-time economy; and marketing. These groups feed into, and take direction from, the main Partnership board.

1.6 The Partnership is able to harness the best creative and innovative thinking from across the member bodies to tackle issues that cut across the interests and remits of various bodies and authorities – in Westminster's case, ensuring the best possible deal for our residents and communities. For example, through working collaboratively with Transport for London, the Partnership is ensuring that the likely impacts of Crossrail are properly mapped and planned for, so that the West End can not only cope with but also benefit from the increase in visitor numbers and footfall through ensuring strategic investment in the necessary transport and public realm infrastructure. Such investment will be of equal benefit to local Westminster residents as well as to the millions of visitors to the City.

1.7 The Partnership is in the process of finalising a long-term vision for the West End to which all of its members will subscribe and that will underpin the strategic direction of its work. In terms of deliverables, the Partnership has already been instrumental in securing more police visibility around Leicester Square, and is coordinating a major programme of public realm and road improvements. All of this work directly benefits our residents and local communities.

1.8 The Partnership is also modelling the impacts of a range of scenarios to aid joint decision-making and influencing Government to recognise the West End's economic importance and need for flexibility in areas such as cost recovery and the late night economy. Again, the resident is at the heart of this work, in terms of ensuring the best possible deal is achieved through our strategic working relationships with the bodies who form part of the Partnership.

1.9 All of this work is financially viable, leveraging funding and in-kind support from private interests by demonstrating a clear, shared vision and tangible results.

2. Growth Deal for London

2.1 The Commission received an update paper on the Growth Deal for London at its meeting in July of this year, shortly after the details were announced of the Growth Deal that had been secured from central Government.

2.2 To recap, the Growth Deal put forward by the London Enterprise Panel – the London local enterprise partnership (LEP) – centred on three areas: Employment Support; Skills Provision; and Housing Investment and Supply.

2.3 As a result of the deal, the LEP secured £236m from the Government's Local Growth Fund to support economic growth in the area. By 2021, HM Government expects this Deal to create at least 6,000 jobs and allow 5,000 homes to be built.

2.4 The area in which Westminster has until now focussed its efforts has been Employment Support. Our aim is to help Londoners into sustained employment through additional funding and freedoms that have been afforded to the eight central London boroughs that make up Central London Forward (which includes the City of Westminster). A time-limited pilot will be developed, targeting Employment Support Allowance (ESA) claimants who have been unsuccessful at finding work through the Work Programme.

2.5 Westminster has been instrumental in negotiating the detail of this pilot and cohort with central Government. There are currently more than 10,000 adults claiming ESA in Westminster at an average cost to the Exchequer of £8,831 per person per year and a total cost of over £88m per year. Mental health is the biggest single cause of ESA claims, but many clients have a variety of complex needs that prevent them from easily obtaining and holding on to employment. Success rates through conventional services such as the Work Programme are very low. In London only six per cent of new ESA claimants and 11 per cent of claimants with disabilities have found sustained work since the programme began.

2.6 The Central London Forward group of central London authorities expects to be jointly awarded £11.15m of additional funding to deliver a five year pilot that will help almost 4,000 Work Programme returners claiming ESA to find and sustain work. The pilot will test how the integration of employment support and wider public services can be better achieved at a local level for the very hardest to help, thereby delivering better job outcomes and producing increased fiscal savings in terms of a reduction in benefit expenditure and reduced demand for public services.

2.7 The key feature of the pilot will be the appointment of dedicated caseworkers who will provide residents with intensive support to tackle the issues that are inhibiting their path into employment. The design of the model has been informed by evidence of what works locally, including our Work Place Coordinator Scheme, Troubled Families programme and the Family Coaching Service. The pilot will aim to significantly improve on the performance of the Work Programme.

2.8 The other key focus of the pilot is in terms of managing demand on Westminster's services. We know that in pockets of high rates of worklessness and poor health, a relatively small cohort of individuals and households can have an enormous impact on public services in terms of demand and cost. By targeting our efforts at that group, we will not only improve the life chances of the individuals concerned enormously, but we will ensure significant savings are achieved at a time of increasing financial constraint and difficulty.

2.9 Success will unlock a series of progressive steps towards further local service integration. HM Government has immediately committed to '*open discussions on ways for London Government to play a greater role in the commissioning of the next phase of employment support programmes [including the Work Programme],'.* Over the longer term, and subject to the success of the pilot, HM Government will also grant London 'priority status' for any future policy changes to locally led commissioning arrangements for future employment services for the hardest to reach.

2.10 The pilot is one of only three to be granted nationally (the other two have been awarded to Greater Manchester and Glasgow) and it sets an important precedent that supports the Council's longer term objective of capturing a greater proportion of the upside of economic growth which can then be re-invested back into local services to benefit residents. The Council has played a leading role in securing this ambitious pilot which has positioned Westminster as a leader in the wider national and London wide debate on devolution, enhancing our influence with the Mayor and HM Government at a time when that debate has gained a particular momentum.

3. Budgetary Challenges Facing Westminster

3.1 Colleagues will be aware that the scale of reductions in local Government funding that we have faced since 2010 has been almost unprecedented. On a national level, there is an estimated funding gap of some £14.5bn between the funding available to local authorities and their projected expenditure in 2019-20.

3.2 In Westminster, we have had to achieve £100m of savings in the past three years, which we have successfully done, not only balancing the books at an incredibly difficult financial time for local authorities across the country, but also retaining the vast majority of front-line staff and services and maintaining – and even improving – Westminster's levels of resident satisfaction in the process.

3.3 We have done that by concentrating on driving out inefficiencies and taking a creative and innovative approach to service delivery. This was, of course, perhaps best showcased through the Tri-Borough programme, which has become the national benchmark and model for delivering shared services.

3.4 By focusing in that way, I am proud that this authority was able to achieve the necessary savings while, for example:

- halving the average length of care proceedings to 26 weeks, helping children in care find loving homes faster;
- ensuring a 10% reduction in reconviction rates through commissioning a shared service that has also reduced local spending on tackling re-offending by £6.1m over five years; and
- exceeded the Mayor's affordable housing target, with a total of around 1,200 built over the past five years out of a total of more than 5,000 new homes in Westminster.

3.5 However, the authority is now required to find a further £100m of savings over the next three years until 2018. That is of course going to be challenging and will have to effect the way that we do the things that we do as an authority. Westminster has always, quite rightly, had a reputation for innovation, and we will need to be at our resilient and flexible best over the years ahead.

3.6 The scale of the savings is such that it will not be possible simply to meet them through top-slicing departmental budgets. It will require creative cross-departmental and portfolio working, to realise savings through a fundamental change to the way that services are delivered. Only that way will we be able to continue fully to meet the demands of our residents and protect front-line services to the best extent possible.

3.7 This approach is being encouraged by central Government through additional funding streams and pooled budgets being made available targeted on outcomes, such as for example Troubled Families, the Better Care Fund and, as mentioned earlier in this update, Local Growth Funds.

3.8 In a number of areas, Westminster is working at the forefront of the public service reform agenda; rethinking our provision of services to concentrate on the resident interface with the Council and ensuring that those interactions are streamlined and made as efficient as possible, especially where individuals or families may call on a number of Council services. The Council has recently launched a new website and is focusing ever more on the importance of digital interaction with our residents – both from the point of view of the reduced costs to the Council, but also the increased convenience to individuals.

3.9T he demands placed on the Council from our residents, visitors and businesses will remain constant – indeed, according to some data, expectations are actually increasing. They have rightly come to expect the very best from this authority, and we must ensure that we continue to deliver to those standards. My Cabinet colleagues and I are working very closely in tandem to ensure that the savings that are required are achieved in a way that does not diminish those standards or threaten front-line services in the City.

This page is intentionally left blank

City of Westminster

Westminster Scrutiny Commission

Date: 18th November 2014

Classification: General Release

Title: **LOCAL GOVERNMENT ASSOCIATION FINANCE REFORM PAPER**

Report of: Policy & Scrutiny Manager

Cabinet Member Portfolio Leader of the Council

Wards Involved: All

Policy Context: Better City Better Lives

Report Author and Contact Details: **Mark Ewbank x2636**
mewbank@westminster.gov.uk

1. Executive Summary

1.1 An independent commission has been tasked with making recommendations for the reform of local government finance and finding better ways to fund local services and promote economic growth in England. The Independent Commission on Local Government Finance is chaired by Darra Singh, partner in the Government and Public Sector team at EY. Its recommendations will be presented to all of the main political parties with the aim of shaping the debate on the future of local government finance and influencing the next government.

1.2 The Commission has been established by the Local Government Association (LGA), the national voice of local government, and the Chartered Institute for Public Finance (CIPFA), the professional body for public finance professionals. Last year both the LGA and CIPFA individually set out proposals for the urgently needed reform of public services to make them fit for the 21st century.

2. Key Matters for the Committee's Consideration

2.1 Would the Commission wish to make a representation or submit evidence to the rest of the Inquiry?

3. Background

3.1 The Independent Commission on Local Government Finance is tasked with making recommendations for the reform of local government finance and find better ways to fund local services and promote economic growth in England.

3.2 The commission's final recommendations on the future of local government finance will be presented to all of the main political parties with the aim of shaping the debate on the future of local government and influencing the next government.

3.3 The Commission will explore how an improved local government finance system could help to address five key challenges facing the country within the context of lower public spending:

- Promoting economic growth and investment in infrastructure.
- Ensuring sufficient housing is provided in every place.
- Integrating the health and social care systems to promote independent living, including preventing unnecessary health interventions.
- Achieving a welfare benefits system that promotes work and protects the vulnerable.
- Supporting families and developing young lives through early intervention.

3.4 The Commission held its first meeting in May 2014. An interim report was recently published and appended to this report. The Commission has a view to publish its final recommendations in early 2015, after further solicitation of evidence.

4. Interim findings

4.1 In submissions and meetings the Commission has been repeatedly told that the local government finance system is broken. They report that evidence suggest that the system undermines councils' accountability to their local communities; as it is virtually impossible to understand; holds back economic growth; promotes fragmentation of services instead of integration; inhibits sound management of public finances; and encourages a sense of dependency among councils instead of self-reliance and ambition.

4.2 The Commission has heard that two developments have given reform a new urgency. Faced with the long term cut 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. Meanwhile, the debate over more powers for Scotland, and the near universal acceptance that decisions are best taken as close to the citizen as possible, has created a rare opportunity to secure devolution within England.

4.3 It is also reported that there is growing interest in local government becoming self-sufficient. By 2018/19 business rates and council tax revenues will exceed local government's projected funding. This will come about as a result of further reductions in government funding which will see total public sector funding fall to around 37% of national income. However, this could provide the foundations for a financially self-sufficient local government. The City Growth Commission's Final Report, 'Unleashing Metro Growth' acknowledges that cities need both the decision-making powers and the financial flexibility to make them self-sufficient. Local flexibility over council tax bands and valuations would help break the logjam over reforming it.

4.4 The Commission report that a reformed finance system will still need an element of equalisation — redistribution of money between areas to reflect differences in wealth — but it should also provide incentives for economic growth, such as retaining additional business rates, and promote a clearer relationship between where money is raised and where it is spent. It is considered that the business rates retention system has hints of self-sufficiency, but the overall package is reportedly too limited to be effective. On housing, the Commission have been told that the crisis in supply will not abate until local government has a revitalised role in local housing markets. Local **authorities should be able to borrow to invest in social housing which provides a return, under the same rules as registered social landlords and without any artificial limits**.

4.5 The Commission believes the need for reform is urgent, and sees an opportunity to establish a funding system for local government which is largely self-sufficient. This should include **powers to set council tax bands locally**, **revalue properties regularly** and **raise additional revenues**. These features are seen by the Commission as key to ensuring public services are sustainable in an age of austerity.

4.6 It is clear that councils have an important role to play in addressing the chronic shortage of housing, and the Commission recommend that they should be able to **borrow to invest in social housing**. Reforming the powers and funding of local government would support national policy objectives such as growing the economy and integrating public services. For example, policy around **housing, welfare support skills and training could be developed as a single coherent framework**, **while giving councils and local businesses more control over skills development would be a major advantage for the UK econom**y. It is reported that by addressing the fragmentation in funding and control of services around children and families, it would save money and improve life chances.

4.7 The Commission agree that Government needs to support effective financial planning by announcing **multi-year funding settlements**. There has been much debate about local choice and national standards. They consider that the time is now right for a conversation between comparable outcomes and local decision making. Moves towards early intervention and prevention are essential. One way that has been proposed to achieve effective pooling for early intervention is to create a central fund which offers to match-fund any local partnership contributions. In Northern Ireland and in Scotland central funds for early action have been created. The Commission will be looking at these and other approaches in the next stages of their work.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Mark Ewbank x2636
mewbank@westminster.gov.uk

APPENDICES

The Interim Report of the Independent Commission on Local Government Finance

BACKGROUND PAPERS

Appendix A

Evidence to the Public Administration Select Committee on the issue of Whitehall's capacity to address future challenges

Westminster City Council

October 2014

INTRODUCTION

1. We welcome the Public Administration Select Committee's call for evidence on the issue of Whitehall's capacity to address future challenges.

2. We believe that the single biggest challenge which Whitehall must develop its capacity to address is the **future sustainability of local public services**, specifically the development of a sustainable funding model that **enables local places to deliver the twin objectives of tackling complex dependency and creating the conditions for economic growth**. Westminster City Council, along with London and national partners, has been working constructively with Government to design, test and implement new approaches to public service delivery which are outlined in more detail below.

3. However, we believe that there are major constraints on Whitehall's capacity that produce a barrier to further and faster reform in a number of areas:

    A. Certainty of funding and investment

    B. Effective incentive frameworks

    C. Alignment of local and national commissioning, priorities and outcomes

    D. Multidisciplinary teams accessed through a single place-based point of contact

    E. Effective pooling of data

4. We believe that if Government built its capacity to overcome these barriers, we would be able to progress major national reforms much faster. This would include:

    - Securing a sustainable financial deal for Troubled Families through multi-agency pooled budgeting and giving greater flexibility on Troubled Families criteria (beyond what has already been announced) in order to help more families more effectively and ensure a legacy for the Prime Minister's pledge to turn the lives of 120,000 Troubled Families around

    - Harnessing local expertise in shaping future employment support commissioning, such as Work Programme Plus, to be more effective for all groups

    - Reviewing how health and care organisations (for example acute trusts who are currently funded on an activity basis) are funded to ensure alignments of incentives to deliver more services in the community, reducing pressure on acute services, better serving the most vulnerable and generating savings

- Allowing local areas to realign the incentives within the skills funding system towards job outcomes and to share in the risk and reward of tackling worklessness in order to support more people to secure and progress in work

- Moving towards local funding settlements that extend over a Spending Review period, allowing local areas to translate success into cashable savings and demonstrate how well-designed local interventions can pay for themselves

- Consolidating success by negotiating '**public service reform deals**' with localities, tailored to local needs and requirements and setting out how public money will be pooled across agencies in pursuit of collaboratively agreed outcomes

5. In developing our thinking on these issues, we have worked closely with colleagues in Greater Manchester. London and Greater Manchester are very different areas politically, demographically and economically both are making progress in transforming services through working across council boundaries and spending silos.

6. Below we outline some of the key principles and success factors that are underpinning our work and demonstrate how, through removing barriers to the application of these principles and through collaborating to test flexibilities and exemptions, a commitment from Government to work together could help us to go further and faster on reform. Our proposals and ideas cover three areas:

    - Progress to date in driving forward service reform

    - Areas where we in the short term pioneer flexibilities or exemptions from national policy and demonstrate clear outcomes

    - Areas of longer-term ambition around place-based budgeting

OUR REFORM AGENDA AND PROGRESS

7. We have a strong track-record of reforming local public services in order to improve lives and make our resources go further.

8. Through sharing services with the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith & Fulham we have:

- Reduced the average length of care proceedings by 45% (from 49 weeks to 26 weeks), reducing the cost to our councils from £27k per case to £17k and helping children in need find a loving home faster

- Turned around over 1,500 families' lives through our shared troubled families programme

- Led the national re-design of re-offending prevention, commissioning a shared service that has delivered £1m of cashable savings and will achieve a 10% reduction in reconviction rates and reduce local spending on tackling re-offending by up to £6.1 million over five years

- Shared foster and adoption placements across the three boroughs, avoiding the additional cost of having to use Independent Fostering Agency carers and helping find looked after children a permanent loving home faster

- Introduced the one library card policy, giving residents, workers and students unprecedented access to more than one million library books and a range of specialist collections

- Led the national charge for the integration of health and social care services through piloting a more sustainable basis for delivering better outcomes for our local population, particularly those who are elderly or have complex needs and are most at risk of being admitted to hospital or a care home. This is being funded nationally through the Better Care Fund.

- Introduced a shared Multi-Agency Safeguarding Hub which has improved information sharing at the point of referral so that we make better quicker assessments about risk to children, as well as driving improved practice in relation to Child Sexual Exploitation and Missing Children

9. Through working collaboratively with the Department for Work and Pensions, Cabinet Office and the eight central London boroughs that make up Central London Forward (Westminster, Camden, Corporation of London, Lambeth, Lewisham, Southwark, Islington,

Kensington and Chelsea) as part of the London Growth Deal, we will look to test a locally integrated approach to supporting Work Programme leavers claiming Employment Support Allowance into sustainable employment.

10. However, we know that more can still be done to reprioritise resources towards developing a more responsive and less bureaucratic offer to our residents; an offer which is also targeted towards prevention and helping reduce demand. This approach will ensure that local people are able to share in the fruits of growth by accessing the numerous employment opportunities in London, in the process reducing dependency, improving health outcomes and creating more resilient communities. For example, an average Employment Support Allowance claimant currently costs public services an estimated £8,831. Supporting this cohort successful into sustainable employment delivers not only huge benefits to individuals and our communities, but also significant savings to the Exchequer.

11. Building on the successes of the Public Service Transformation Network and the joint Cities and Local Growth Team, we believe that the Civil Service should develop the capacity to establish 'public service reform deals' that enable local places to re-invest the fiscal benefit we create for the Exchequer (by tackling complex dependency, supporting residents into jobs and driving our economies) into creating a sustainable basis for funding efficient and effective local public services.

KEY PRINCIPLES FOR REFORM

12. There are five common principles and proven success factors which have emerged through the reform work to date and resonate with experiences elsewhere, such as in Greater Manchester. These form a stable basis for investment in early intervention, reducing dependency and aligning budgets at the place level:

    A. **Certainty of funding and investment**
    B. **Effective incentive frameworks**
    C. **Alignment of local and national commissioning, priorities and outcomes**
    D. **Multidisciplinary teams accessed through single place-based point of contact**
    E. **Effective pooling of data**

13. We have used these to structure our specific proposals and illustrate how developing the capacity for collaborative working across Government can help to build the conditions for growth, reduce dependency, slash costs and pioneer radical new approaches to public service delivery.

14. In building this capacity and applying these principles we advocate differential devolution approach. We recognise that the Government has already taken significant steps to implement national reforms but also that this approach is necessarily limited in the short term by the need to manage risk, as well as by the fact that the full benefits of reform can only be realised by a locally tailored approach. Working initially with London and a small number of other areas nationally offers Government a low-risk opportunity to test new approaches and build on the national reforms.

KEY AREAS WHERE CAPACITY NEEDS TO BE DEVELOPED TO SUPPORT REFORM

A. <u>Certainty of funding and investment</u>

The barriers to reform

15. Underpinning the proposals in the paper is a desire for certainty of funding over a Spending Review period. 1-2 year funding periods, the norm at the moment, restrict long-term investment and also result in a high proportion of time spent commissioning and decommissioning services rather than delivering. Yet, as demonstrated by our business cases across a whole range of policy areas, payback periods are often longer and long-term investment is essential.

Transforming justice

16. For example, the commissioning of Tri-borough's reducing reoffending pilot scheme was boosted by a two year budget commitment from the Mayor's Office for Policing and Crime (MOPAC) rather than the single year settlements which had previously been the norm, enabling greater certainty and more staff time spent delivering results rather than commissioning and decommissioning. The longer settlement has also enabled Tri-borough

to adopt a similar approach to tackling violence against women and girls, undertaking an evidence-based review which brings together disparate funding streams and leads to a commissioning approach which delivers demonstrable savings. A longer-term settlement, over the period of a Spending Review, would enable the period over which programmes are delivered to be aligned more closely to their payback period, making it easier to translate success into cashable savings and demonstrate how a well-designed local intervention can pay for itself.

Complex families

17. We welcome the Troubled Families Programme and the investment that Government has committed to dealing with families whose behaviour damage themselves, their children and the wider community. We have developed a new approach to deal with the TFP cohort that involves triage, case management and key worker support, provided at the level of intensity the family needs. Whilst welcoming the increased local flexibility built into the expansion of Troubled Families for 2015-16, we are concerned that in the short term nationally imposed targets that do not take account of local context (particularly in London) continue to put local delivery arrangements at risk. In the longer term, if the Prime Minister wants his pledge to turn round the lives of 120,000 troubled families to realise its potential as a driver of public service integration rather than remaining a short-term initiative, a deal needs to be brokered across the full range of relevant Government departments to secure a sustainable funding model for the programme – ideally adopting the principle of pooling budgets from departments in proportion to the savings they realise. This will require significant willingness on the part of Whitehall officials to work flexibly across teams and departments to recognise and seek to align the different frameworks of funding, outcomes and accountability operating in different areas of Government, an approach which has begun to see results through the City Deals and Local Growth Deals.

Health and social care

18. Alongside a realignment of incentives within the system, extending the principle of multi-year budgeting to health and social care would encourage investment in early intervention solutions that reduce demand on acute services. As part of the review of incentives it is important that the Government consider where risk and reward lie in the system. Currently, progress on the integration of health and social care could be hampered through the recent changes to the Better Care Fund which place more financial risk on adult social care, while the reward remains mainly with health partners.

B. <u>Effective incentive frameworks</u>

The barriers to reform

19. Our Whole Place Community Budget business cases showed how within five years we can create annual savings of up to £70m per annum across local public services. A large proportion of these savings will accrue not to the local authority but to other local services and central government departments. Meanwhile, current needs-based funding models

too often see a failure to invest in success, creating further disincentives to invest in reform.

20. In order to sustain this level of progress, the ability to retain a share of cashable savings and benefits over a longer period for reinvestment at a place level is crucial. Ensuring that payment by results programmes incentivise work across a range of connected issues, rather than being siloed by Government department, is also vital to making this work.

Health and social care

21. The current national tariff system for hospital care is based on outputs rather than outcomes, leading to continued pressure on acute services and little incentive to invest in community-based treatment. Tri-borough is working as part of the North West London grouping of eight boroughs and exploring a new reimbursement model that supports a move away from the tariff system to a capitated payment based on outcomes rather than activity and in adherence with contracting and competition regulations. Such an approach will far more effectively address the health and social care needs of the 20% of local people that account for around 77% of health and social care costs and enable savings of around £66m per annum. This will require greater flexibility to test new payment systems and contractual arrangements in a way which allows us to effectively manage risk.

Employment

22. We believe that an outcome-based payment model should be retained for tackling worklessness, but it should be a more nuanced one that recognises the need for up-front investment for the hardest to help groups and contain an element of reward for progression towards the labour market for those clients with the greatest challenges. Future provision should be based on an approach that segments those referred on the basis of need, rather than their primary benefit type. This would allow an assessment of clients' barriers to finding work to be reflected in the payment model, and would have the additional benefit of enabling the transition to Universal Credit. We believe that the civil service should look to develop its capacity to nuance nationally set payment models through applying local knowledge and analysis of cohort needs. We are looking to test some of these principles through our involvement in the Central London Forward ESA pilot as part of the London Growth Deal, and to use this experience to inform the future of Work Programme Plus through collaborative work with the DWP.

Skills

23. Skills are important to London employers – almost 40 per cent more jobs in London require Level 4 skills than across the UK and 24 per cent of London vacancies have been attributed by employers to a lack of skills, qualifications or experience on the part of jobseekers, compared to 16 per cent across the UK. Yet skills providers gain the vast majority of their funding for course completion, regardless of employment outcomes. Meanwhile, different skills programmes are measured and funded in different ways, with wide variations as to whether success is measured in terms of participation, course completion, outputs (e.g. qualifications) or outcomes. Tri-borough supports a realignment of the incentives in skills

funding towards job outcomes – varying how providers are paid so it is in their interests to focus on employment. In the longer term there is also interest in rewarding progression outcomes such as wage gain – supporting the Government in seeking to move people off in-work benefits. Again the London Growth Deal offers a limited opportunity to test some of these principles through a 'payment by results' pilot for skills, but accelerating and expanding this will require new approaches to collaborative working within Whitehall and Government agencies.

24. In the short term, there is more scope to reward colleges and training providers for taking on individuals from deprived backgrounds. Whilst the current formula contains a small premium, this is not large enough to cover extra costs and does not reflect the potential returns of individuals at risk of becoming NEET successfully gaining skills: ACEVO's Commission on Youth Unemployment last year noted that an 18-24 year old NEET moving into work would save the Exchequer an average of £5,662 per year in benefit costs (for the two thirds who claim) and contribute a net extra £582 per year in taxes, without taking into account the broader economic effects of lost output and the 'scarring' effects on individuals' future productivity.

C. Alignment of national and local commissioning, priorities and outcomes

The barriers to reform

25. In key areas of public service reform work, notably justice and employment support, large-scale national contracts are the dominant force within the marketplace. However, engagement of local partners with commissioning processes has often been late or absent and, once in place, national contractors have little incentive or obligation to integrate their provision with the work of local partners, leading to duplication, inefficiency and a confused customer journey.

26. Similarly, the use of procurement frameworks with exclusively large contractors has seen a situation where local third sector expertise and experience has not been harnessed effectively. A particular barrier to progress on reform is the difficulty of aligning national priorities with local knowledge, expertise and delivery mechanisms; rigid national targets and cohorts, often focused on single issues, make it more difficult for local agencies to work together to meet the needs of the target population and achieve savings, whilst also working against the principle of early intervention by specifying work with those who already meet a certain set of criteria, rather than those at risk.

Transforming justice

27. We support the Government's policy shift to provide targeted rehabilitation to short sentence prisoners on release from prison but believe that the new provision must be co-commissioned with local authorities. The proven success factors incorporated into the design of Tri-borough's reducing reoffending programme – projected to reduce reoffending by 10% and save £6.1 million over a 5 year period – include early, personal engagement with an offender and assessment of their needs and motivation to change; a consistent key

worker able to broker access to local services appropriate for the offenders' needs such as improving skills or overcoming substance misuse; and clear and credible sanctions, integrated clearly with local functions such as policing and housing, for those who continue to offend and do not engage with the service. To deliver sustained savings, Tri-borough should be able to work with Government to take a more flexible approach to the Ministry of Justice's national commissioning arrangements, ensuring a clear role in co-commissioning and inclusion within the supply chain, so that we are able to contribute the best local knowledge to the service design process and integrate nationally mandated provision with wrap-around support offered by the full range of public services in our area.

Employment support

28. The experience of the Work Programme has demonstrated how early engagement of local partners in co-designing programmes, rather than only at the contract letting stage, is critical to delivering effectively on the ground and achieving the most sustainable outcomes. Increasing contractual commitments to partnership working would enable large providers to work with sub-contractors and other public-sector commissioned services to develop the right services for clients. The ability to integrate locally defined outcomes and commissioning expertise into a nationally-determined framework would strengthen the case for pooling local resources with national funding, increasing central Government's reach and potential to deliver outcomes.

Complex families

29. Whilst welcoming the increased local flexibility built into the expansion of Troubled Families for 2015-16, the programme has significant further potential to assist many families who do not meet the criteria but are nonetheless experiencing problems and costing the public purse significant sums of money, and others who are at risk but not yet meeting the criteria. Sustainable multi-departmental funding for the programme is needed in the longer term to underpin this holistic approach.

30. Improved integration between troubled families and other commissioning, including employment support and probation, is another key aspect of making the programme more effective. The DWP-commissioned ESF for Families programme has significantly underperformed due to a lack of effective integration with existing local programmes and a mismatch of incentives and target cohorts. Within Tri-borough, in Kensington and Chelsea no outcomes have been registered for several months due to delays on the part of the prime contractor in appointing a subcontractor. In Westminster, the local organisation subcontracted to deliver the programme has pulled out on the grounds of financial viability. The conversion rate (from starts on the programme to validated job outcomes) for this programme has been 14-15%; validated performance outcome data from the prime contractor shows that only 15 sustained jobs were achieved within a seventeen month period and whilst the cohort is recognised to be some distance from the job market, only 25% of all those engaged with the programme progressed to other development opportunities such as volunteering and further education.

31. Channelling the ESF funding through a co-commissioned approach between DWP and local troubled families teams could see a significantly better return: a previous programme run within Westminster with a similar cohort - the Local Authority Innovation Pilot – co-located employability advisors with children's services, linked parents to a multi-agency 'team around the family' and secured a conversion rate of 27%. It will be essential for ESF opt-in organisations within central Government's control to prioritise local integration and alignment with the Troubled Families Programme in finalising service specifications – a process which cannot happen successfully within single departmental silos.

D. Multidisciplinary teams accessed through a single place-based point of contact

The barriers to reform

32. The ability to deploy a range of expertise to work with an individual or family, whilst also providing the stability and trust arising from a single point of contact, is fundamental to the delivery model across several areas. The relative ease of achieving this is a key advantage arising from design and commissioning of interventions at the place level and enables a range of issues to be resolved through a single mechanism rather than relying on relationships between siloed organisations, which are often patchy and dogged by difficulties such as regulations around sharing personal data and, increasingly, commercial confidentiality. In some areas centralised approaches are continuing to be followed that are not able to realise the benefits of this approach.

Employment support

33. Employment Support Allowance (ESA) claimants cost the Exchequer an estimated £8,831 per person per year and a total cost of £216m per year. Mental health is the biggest single cause of ESA claims, but many clients have a variety of complex needs that prevent them from easily obtaining and holding on to employment. Success rates through conventional services such as the Work Programme are very low.

34. Through Central London Forward we are developing a new model for supporting the cohort based on dedicated caseworkers who provide clients with intensive support to tackle the issues that are inhibiting their path into employment. Caseworkers will be the key point of contact with the customer throughout their time on the Pilot and will:

- carry out an in depth assessment to identify a customer's barriers to employment, including health needs, drug and alcohol addiction, family issues and financial and digital capability
- cross-reference existing support services with which the individual has already engaged
- develop an action plan with the individual

- act as the key-worker, assessing needs, making and coordinating appointments and facilitating "warm handovers" to the relevant local support services according to the individual's needs and agreed action plan
- be the key point of liaison with regard to employment and employability, track the client and manage relationships with local services (such as health, housing, substance misuse specialists, skills, employability and employment provision), as the individual progresses towards employment
- maintain contact and provide in-work support to the customer once they are in work, and if appropriate, support to the employer
- ensure a suitable handover to other services if the customer does not secure employment at the end of their period on the programme to ensure some continuity of support

35. The design of the model has been informed by best practice from the Individual Placement and Support service delivered by the Central North West London Mental Health Trust, the Family and Community Employment Service (the employment arm of the Tri-borough Troubled Families Programme), and the Family Coaching model, as well as detailed quantitative and qualitative analysis of the client group. It will be characterised by low caseloads, allowing intensive engagement that addresses the full range of clients needs e.g. better management of medication, access to child care, resolution of housing issues, support from community health trainers, free college courses for those on work-related benefits and support from employment mentors and peer groups. A key feature of the delivery model will be the integration of such support so that it is delivered at the optimum time for the client.

36. The development of the model has involved significant joint work with Government departments, particularly the Cabinet Office, the Department for Work and Pensions and the Public Service Transformation Network. The process of co-design and negotiation that has been the basis of the Growth Deals offers a range of learning for wider integrated working across Whitehall and is worth examining in detail, both in its positive and negative aspects, when considering Whitehall's capacity to meet future challenges.

E. Effective pooling of data

The barriers to reform

37. The effective pooling of data is another barrier to reform that cuts across all key areas of public service reform. A particular difficulty is obtaining information on a cohort basis to allow for data matching, e.g. to determine what proportion of attendees at accident and emergency are already known to social care services in order to help design an alternative, more effective and less costly pathway for these individuals or families. The harmonisation

of data collection across agencies, with a clear focus on individuals and families, also needs to be addressed, with the increasing number of organisations involved in service delivery in key areas such as employment support and probation further fragmenting the data landscape. This has a direct impact on the ability of public service reform programmes to realise savings and is a major barrier to the implementation of true place-based budgeting, as distinct from time-limited cash injections for cross-cutting programmes such as Troubled Families. There is also concern about the potential effects of new Government regulation around data security on this agenda.

Transforming justice

38. The experience of the Tri-borough reducing reoffending pilot has been that ensuring that the right data were collected on short sentence prisoners and brokering access to police, Ministry of Justice and Home Office data has been time consuming and often only partly successful. Local involvement in co-designing data collection and data sharing requirements for Transforming Rehabilitation is essential to ensure that this experience improves.

Health and social care

39. Changes introduced in the Health and Social Care Act have disrupted the painstaking process of agreeing information sharing protocols between increasingly stretched and nervous partners. Additionally, the new health and social care coordinators are required to agree information governance processes with each organisation holding relevant data, including multiple health trusts, individual GP practices and any independent or third sector providers. This is further complicated by patient consent issues. The lack of a culture of information sharing impacts on direct care – limiting the scope of proactive services which seek to identify issues and offer help before crisis – as well as on partners' ability to align information on local population need and risk profiles in order to design integrated services that most effectively meet the needs of those groups most likely to benefit from joined-up care. Tri-borough is working on a data sharing framework as part of the North West London grouping, and working with Greater Manchester to share good practice and insight.

CONCLUSION

40. The radical redesign of the totality of public spending is needed if local public services are to be put on a more sustainable financial footing.

41. This should be based on **public service reform deals** that enable local authorities to reinvest the fiscal benefit they create for the Exchequer (by tackling complex dependency, supporting residents into jobs and driving the city economies) into creating a sustainable basis for funding efficient and effective local public services.

42. To achieve this, Government needs to develop its capacity to deliver a place-based, non-siloed approach to local services that encourages innovation and delivery. This approach

would build upon the HM Treasury's commitment in the 2010 Spending Review Framework to "challenge departments, local government and delivery partners to consider fundamental changes to the way they provide vital services" and other proposals including the Barker Commission's recommendation for a single budget for health and social care.

43. Our proposals seek to challenge Government to recognise the threat to the financial sustainability of local public services from a 'business as usual' approach; promote greater responsibility by shifting power, funding and accountability into the hands of individuals and frontline professionals who are often better placed to allocate limited resources; and to consider the implications of this on the structure and remit of Whitehall in the medium term.

Interim Report

Public money, local choice

INDEPENDENT COMMISSION ON LOCAL GOVERNMENT FINANCE

Public money, local choice

Foreword *by Darra Singh OBE*

The Independent Commission on Local Government Finance was set up because the local government funding system is in urgent need of reform. The Local Government Association (LGA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) has asked the Commission to recommend changes to the system which will allow local government to meet the needs of its citizens, and in particular support the delivery of five key national policy objectives: grow the economy, increase the housing supply, integrate health and social care, promote work while protecting the vulnerable, and support families and children through early intervention.

I would like to thank all the Commissioners for the work they have done so far in shaping the direction of the Commission's work as set out in this report. Our call for submissions over the summer secured over 70 responses from inside and outside local government. We were impressed by the rigour of the analysis and the breadth of ideas, with a clear focus on policy objectives such as stimulating growth. We are grateful to all those who contributed.

This interim report explains the themes and ideas that have been presented to the Commission, outlines our emerging thinking, and seeks feedback on how these ideas can be developed. The Commission's purpose is not to lobby for extra money but to propose a finance system that enables local communities to determine a level of funding to meet local decisions on service provision. The sustained cuts to councils' central Government grant gives reform a new imperative — in an age of austerity we need to ensure that public sector funding is used effectively and creatively to support local and national ambition.

Reform of the local government finance system goes to the heart of our ability to grow local economies, improve the well-being of our communities and spend every public pound well. Liberating our towns, counties and cities to develop skills, build houses, improve transport, reduce welfare dependency and support the vulnerable is essential to our national future. Local leaders are concerned that excessive central control is holding back success.

Previous reviews of local government finance have foundered. This time the nature of the challenge and the prize have never been clearer. If the current system is left unaltered, a combination of rising demand and reducing resources will make the services people value unsustainable, undermining our prosperity and quality of life. Reform of the local government finance system is central to developing new ways of delivering public services. But to make progress a change in mind-set is required. The debate about devolving further substantial powers to Scotland has created a unique opportunity to address the excessive centralisation of power within England. For the first time in many decades, the issue of empowering towns and cities to meet the needs of their citizens is at the heart of political debate. There is now near-universal acceptance that power is best exercised close to the people whose lives it affects. The issue now is not just about voting at Westminster but a devolution settlement for the whole country. All the main political parties have expressed strong support for devolution within England; they should seize this chance to act.

This is not a short-term fix or a way of managing decline, but a new economic model for delivering national policy objectives in an era of much lower public spending. The proposals this Commission is developing are realistic and an imperative for the next Parliament. We believe the next government can institute changes which will win public support while laying the foundations for a local government funding system which is stable and effective for the long term. While there are risks associated with any policy change, the greatest risk is in doing nothing.

This interim report asks a number of searching questions. We look to local government, its partners and experts in the field to help us develop these ideas before our final report in the New Year.

Darra Singh OBE

Chair

Independent Commission on Local Government Finance

The Commission

Darra Singh, OBE — Chair

This is an independent report produced on behalf of the Local Government Association and CIPFA. My role as Chair of the Commission is carried out in my personal capacity only and not in my capacity as a member of Ernst & Young LLP (EY). The report does not represent the views or opinions of EY.

Alan Downey

Alan was a partner at KPMG from 1997 to 2014. He retired from KPMG in June 2014 and is taking up a number of non-executive positions on the boards of public sector and charitable organisations.

Anita Charlesworth

Anita is the Chief Economist at the Health Foundation.

Bridget Rosewell, OBE

Bridget is a professional economist and business woman. She chairs Volterra Partners and is Chair of Audit for Network Rail, Chair of Risk for Ulster Bank and is chair of the With Profits Committee for the Co-operative Bank.

Jonathan Portes

Jonathan is the Director of the National Institute of Economic and Social Research (NIESR).

Paul Gray CB

Paul is currently the Chair of the Social Security Advisory Committee, is a retired Civil Servant who was formerly Executive Chairman of HM Revenue and Customs and, before that, the Second Permanent Secretary in the Department for Work and Pensions.

Stephen Hughes

Stephen is a strategic adviser to CIPFA on local government after leaving the post of Chief Executive at Birmingham City in February 2014 which he held for eight and a half years.

Stephen Lewis

Steve is CEO, UK & Western Europe, RSA effective January 1, 2015.

Professor Tony Travers

Tony Travers is Director of LSE London, a research centre at the London School of Economics. He is also a Visiting Professor in the LSE's Government Department.

The Commission would like to thank Richard Vize for his work on this report.
All Commissioners are members of the Commission in a personal capacity.

"Faced with the long term cut 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."

Executive summary

Key messages to the Commission

In submissions and meetings the Commission has been told repeatedly that the local government finance system is broken. It undermines councils' accountability to their local communities; is virtually impossible to understand; holds back economic growth; promotes fragmentation of services instead of integration; inhibits sound management of public finances; and encourages a sense of dependency among councils instead of self-reliance and ambition.

While the system has needed change for many years, we heard that two developments have given reform a new urgency. Faced with the long term cut 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. Meanwhile, the debate over more powers for Scotland, and the near universal acceptance that decisions are best taken as close to the citizen as possible, has created a rare opportunity to secure devolution within England.

There is growing interest in local government becoming self-sufficient. By 2018/19 business rates and council tax revenues will exceed local government's projected funding. This will come about as a result of further reductions in government funding which will see total public sector funding fall to around 37 percent of National Income. However, this could provide the foundations for a financially self-sufficient local government. The City Growth Commission's Final Report, 'Unleashing Metro Growth' acknowledges that cities need both the decision-making powers and the financial flexibility to make them self-sufficient. Local flexibility over council tax bands and valuations would help break the logjam over reforming it.

It is clear that a reformed finance system will still need an element of equalisation — redistribution of money between areas to reflect differences in wealth — but it should also provide incentives for economic growth, such as retaining additional business rates, and promote a clearer relationship between where money is raised and where it is spent. In addition, councils should have stable and independent sources of income.

The business rates retention system has hints of self-sufficiency, but the overall package is too limited to be effective. On housing, we have been told the crisis in supply will not abate until local government has a revitalised role in local housing markets. Local authorities should be able to borrow to invest in social housing which provides a return, under the same rules as registered social landlords and without any artificial limits.

> *“Meanwhile, the debate over more powers for Scotland, and the near universal acceptance that decisions are best taken as close to the citizen as possible, has created a rare opportunity to secure devolution within England.”*

The need for effective long term financial planning was highlighted, with calls for the government to announce five year funding plans for local government at the beginning of each Parliament.

The health and social care system is under extreme pressure. The NHS Five Year Forward View talks about an annual shortfall of around £8 billion and we know that the gap in social care funding is over £700 million a year.

We have been told that the ability to pool resources locally and take a multi-agency approach is crucial for early intervention

The Commission's early views

The Commission believes the need for reform is urgent, and sees an opportunity to establish a funding system for local government which is largely self-sufficient. This should include powers to set council tax bands locally, revalue properties regularly and raise additional revenues. These are key to ensuring public services are sustainable in an age of austerity.

It is clear that councils have an important role to play in addressing the chronic shortage of housing, and should be able to borrow to invest in social housing. Reforming the powers and funding of local government would support national policy objectives such as growing the economy and integrating public services. For example, policy around housing, welfare support skills and training

"The Commission believes the need for reform is urgent, and sees an opportunity to establish a funding system for local government which is largely self-sufficient."

could be developed as a single coherent framework, while giving councils and local businesses more control over skills development would be a major advantage for the UK economy. Addressing the fragmentation in funding and control of services around children and families would save money and improve life chances.

We agree that Government needs to support effective financial planning by announcing multi-year funding settlements. There has been much debate about local choice and national standards. The time is now right for a conversation between comparable outcomes ad local decision making.

Moves towards early intervention and prevention are essential. One way that has been proposed to achieve effective pooling for early intervention is to create a central fund which offers to match-fund any local partnership contributions. In Northern Ireland and in Scotland central funds for early action have been created. We will be looking at these and other approaches in the next stages of our work.

Councils and the NHS are committed to breaking down the barriers in how care is commissioned and delivered. Given the scale of the resources involved this is immensely important. The evidence for financial tools such as pooled budgets delivering integrated care is limited. Approaches such as the Better Care Fund are a start. However the scale of the challenge needs a bigger ambition and lager investment in transformation.

Why reform is needed now

The Commission was established to examine the strengths and weaknesses of the current local government finance structure, and propose reforms to deliver a system which is fair, understandable and sustainable.

We are testing the options for reform against five key challenges facing the country and local communities:

- promoting economic growth and investing in infrastructure;
- ensuring a sufficient supply of housing in every part of the country;
- providing a welfare system that promotes work while protecting the vulnerable;
- integrating health and social care to promote independent living and efficient use of resources;
- supporting families and children through early intervention.

In the responses to the Commission we received a clear message that there are serious and damaging weaknesses in the existing local government finance system. We heard that it fails every test of an effective, sustainable funding regime: it lacks accountability to the communities it serves; it is virtually impossible for the public or indeed ministers to understand; it is unfair; it promotes fragmentation of services instead of integration; and it encourages a sense of dependency and entitlement among councils instead of self-reliance and ambition. The grant system has been made so complicated and been altered so many times that it no longer provides a rational basis for allocating funds. Over the years, complexity has compounded complexity as the system has evolved under successive governments. The distribution of government grant to councils cannot be arbitrary; it needs to be intelligible and rational. The arguments that have been presented for reform stress that there have been four major changes in the political and economic landscape since the current system, built around the council tax, was introduced.

First, the need to bring an end to the public sector deficit has put local government funding into reverse, with many areas experiencing a cut in central government grant of 30–40 per cent during this Parliament. This has disproportionately affected the areas with the highest need, because historically they have been the ones with the greatest proportion of their income derived from government grant.

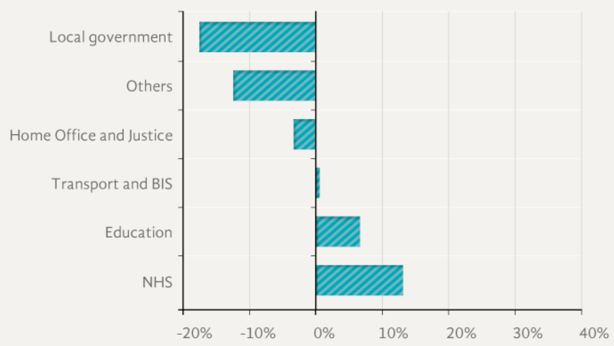
Second, the creation of the Parliament for Scotland and the assemblies for Wales and Northern Ireland mark a profound change in the UK system of government. The Commission has heard that there is now virtually universal support for the principle that power is best exercised as close as possible to the citizen. The prospect of further devolution to Scotland provides the opportunity to explore how local areas in England can take greater control of their own affairs.

Third, the surge in London and south-east property prices since homes were valued for council tax in 1991 means that, for many homeowners, the tax they pay bears little relation to the value of their home. This exacerbates the inherent unfairness of council tax — the number and levels of the bands make it a 'regressive' tax, costing people with lower value homes proportionally more than those in higher value ones.

Finally — and crucially — the current system of central control was constructed before this century's resurgence in the quality and confidence of local government. Local authorities now match a relentless focus on basic services with a resolve to build the local economy in partnership with business. There is determination to create jobs, improve training, reduce welfare dependency and intervene early with troubled families.

The responses to the Commission spelt out how the constraints of the current system were inhibiting progress on all five of the key policy areas. Weak incentives and excessive borrowing constraints are undermining growth. The marginalisation of local government in the supply of housing means the chronic undersupply of new homes — particularly for households on low incomes — will never be overcome. The lack of local direction over the management of welfare and skills programmes exacerbates dependency on benefits and inhibits businesses from finding the staff they need. Excessive rules around health and social care spending are obstructing moves to integrate services around the needs of individuals. Moves towards prevention and early intervention have been championed through initiatives such as the Troubled Families programme, but progress is being slowed by the difficulty of resourcing it alongside growing demand for statutory services. Local authorities have faced some of the largest reductions in public funding since 2010, and the sector has managed the reductions well. Paradoxically, it is this highly effective financial management that has led to it enduring the deepest cuts of any part of the public sector. Ministers have imposed these knowing they will be handled without a crisis.

Local government has borne some of the largest reductions in funding since 2010/11



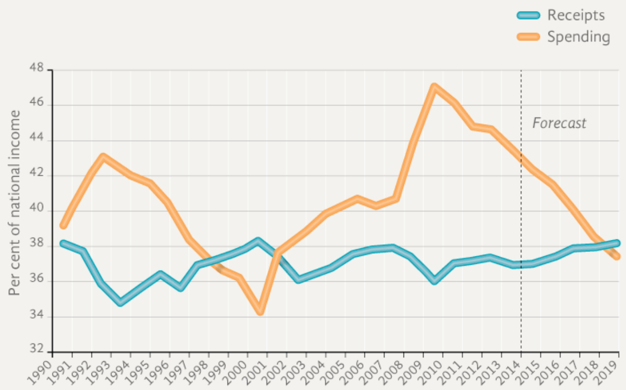
Source: HM Treasury; LGA: 2010-11 baseline as estimated in SR2010 and compares it to estimated spending in 2015/16 as per SR2013

Local government is expecting further deep cuts in the next Parliament. But despite this there has been no let-up in the public's expectation of increasingly effective and efficient public services. The submissions to us make clear that the pressure is being felt most acutely in adult social care, which will consume around 40 per cent of local government spending by 2020. So local government is caught between increasing demand and falling funding, while the lack of genuine local freedoms prevents it from taking the necessary action.

The limits of Localism

Submissions to the Commission spoke of frustration with both the limited benefits of the government's localism approach and the immense difficulties of bringing together disparate government funding streams — each overseen by a particular government department with its own reporting requirements — into a coherent local strategy. City Deals have been welcomed as a move in the right direction, but it is felt that major European cities should not have to spend months negotiating relatively modest concessions from ministers which fall a long way short of councils' ambition to drive their economies and improve their communities and services. The bidding process and drawn-out negotiations contrast sharply with the speed, breadth and ambition of the cross-party devolution offer to Scotland.

Public spending is set to fall to 37 per cent of national income by 2018/19



Source: ONS, OBR

We have heard that the Local Growth Fund is another example of a central government initiative intended to empower local government but which ultimately secured little change. The £2 billion a year fund was described by the All Party Parliamentary Group on local growth as *"a disappointment to many"*. Ministers are firmly in control and government departments are unwilling to engage in making it a success.

The consensus for empowering local government

The submissions the Commission received highlight the near universal consensus on the need for change. The leaders of all three main parties have called for devolution in England. Prime Minister David Cameron believes there is now a political consensus around the need to devolve power and money from Whitehall, arguing: "*The debate now is about how far and fast it can go.*" Labour leader Ed Miliband has backed the devolution of powers covering housing, transport and skills, while Liberal Democrat leader Nick Clegg wants local authorities to have the legal right to demand powers.

> *"The leaders of all three main parties have called for devolution in England."*

Reports from respected political figures for the government and Labour have argued for devolving power and money to councils. In 2012 Lord Heseltine, in his report for the Government No Stone Unturned, called for the creation of a locally controlled, single funding pot worth £50 billion to stimulate economic growth, alongside a reorganisation of Whitehall so that it focussed on strategic issues rather than managing narrow funding streams. This year, Lord Adonis called for cities and counties to be given major responsibilities for planning and delivering infrastructure.

In August the city regions of Leeds, Liverpool, Manchester, Newcastle and Sheffield demonstrated the ambition of local government by proposing, in their One North plan, £15 billion of infrastructure investment to connect the northern cities. They received support from Chancellor George Osborne. The drive of cities is matched by the counties, who represent a population of 23 million.

The County Councils Network recently called for powers to bring together skills, training and investment in line with local economic priorities, alongside fiscal devolution. The District Councils' Network is pushing for districts to be the default provider of universal credit, to allow them to integrate benefits with support services, and for greater freedom to borrow to invest in housing and other infrastructure. There have been four decades of reports for government calling for greater local financial autonomy, including the Layfield Committee (1974–1976), the Balance of Funding Review (2003–2004) and the Lyons Inquiry (2004–2007). Recommendations by Sir Michael Lyons included fewer ring-fenced grants, greater local control over business rates, council tax reform and greater incentives for local authorities to promote economic growth.

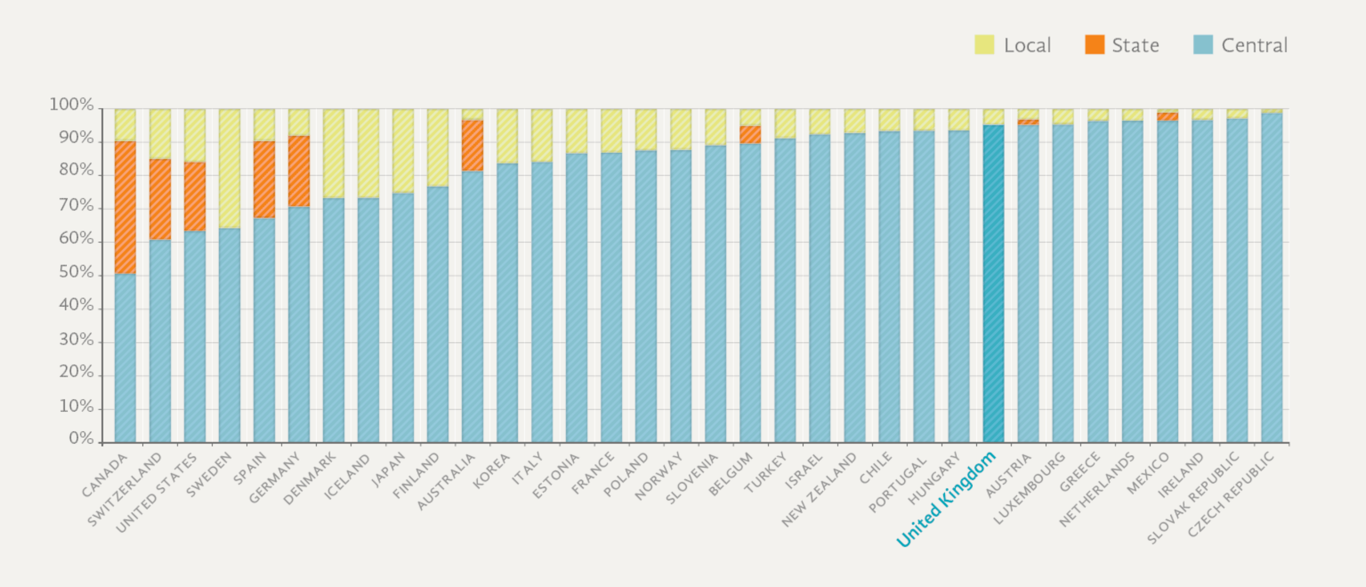
Among numerous other reports, in 2013 the London Finance Commission set up by Mayor Boris Johnson called for the capital to have more freedom to invest in its infrastructure and control over the full range of property taxes, including stamp duty. IPPR North has called for a decade of decentralisation encompassing 40 key administrative, fiscal and political functions of government. Devolution is supported by reports from the Cities Commission[1], and ResRepublica has recently published a report calling for "*devo-max*" for Manchester.[2]

In June the Communities and Local Government Select Committee published its report Devolution in England: the case for local government, which pressed for substantial devolution of powers to raise and spend money. There is striking alignment between the ideas being developed by the Commission and those which have been championed by everyone from local authorities to the Prime Minister. In particular, there is the recognition that devolving power to local government would strengthen economic growth.

1 IPPR North, "*Decentralisation decade: A plan for economic prosperity, public service transformation and democratic renewal in England*", September 2014.

2 ResRepublica, "*Devo Max — Devo Manc: Place-based public services*", September 2014.

Tax revenue by tier as a percentage of total tax revenue in OECD countries 2011



Source: OECD

International comparisons

The point has been made repeatedly over the last four decades that we live in one of the most centralised countries in the OECD. Local taxes — which are largely capped by central government — account for barely 5 per cent of total tax receipts in the UK. In Europe, the figure is typically around 12 to 16 per cent, with far less central control.

In its report on fiscal devolution, the Communities and Local Government Select Committee highlighted local government's excessive dependence on state financing compared with other European countries. For example, Madrid looks to the state for 37 per cent of its funding, New York 31 per cent, Berlin 25 per cent and Tokyo around 8 per cent; London is 74 per cent. European countries commonly use some form of equalisation to ensure different areas have roughly comparable spending power, but nobody goes as far as the UK in trying to even out funding.

It is instructive to look at Germany's approach to local government. The autonomy of towns, municipalities and districts is a key element of the constitution, guaranteed in Article 28 of the Basic Law and the constitutions of the regional Lander. The guarantee of local autonomy prohibits Federal and Land legislation from removing the rights of local authorities to manage their own affairs.

Other countries manage to operate property taxes with regular revaluations. For example, Ireland levies a tax of 0.18 per cent of the property's market value. The first valuation took place in 2013 and the next is scheduled for 2016. New York City operates an annual revaluation, with the increase in the assessed value limited to 6 per cent in any one year and 20 per cent over five years. In the state of South Australia properties are valued annually, based on analysis of house sales during the year.

UK central government exerts an unusual level of control over the spending and borrowing of local government. This is generally justified by reference to the fact that local government spending forms part of general government spending, so under international accounting standards it contributes to public sector deficit and debt. However, the same is true in other countries, who find it perfectly feasible to run fiscal policy without the same central constraints. In federal countries such as the US, Canada and Switzerland there is no central control, so local governments are free to borrow and spend. In countries such as Spain and Germany there are fiscal rules for sub-national governments, often based around the 'golden rule' of only borrowing for capital spending.

There is no evidence that much tighter controls in the UK model improve fiscal discipline over the long run. Indeed, IMF research concluded the opposite: "*Although administrative procedures may provide the central government with even tighter control over sub-national government fiscal outcomes (compared with both fiscal rules and cooperative arrangements), the implicit guarantee of subnational debt related to these controls seems to undermine fiscal discipline in the long run.*" [3]

3 Alexander Plekhanov and Raju Singh, "*How Should Subnational Government Borrowing Be Regulated? Some Cross-Country Empirical Evidence*", IMF Staff Papers Vol. 53, No. 3 © 2007 International Monetary Fund.

The new constitutional settlement—devolution to Scotland, Wales and Northern Ireland

Submissions to the Commission stress that the widely welcomed march towards devolution in Scotland, Wales and Northern Ireland provides a rare opportunity for change throughout the UK, with all the major political parties prepared to make bold moves to devolve power. While there has long been a consensus about the need to devolve power to local government, this does not get translated into action. Politicians on all sides now have the chance to deliver the reforms they have been discussing for so long. While the Commission's work is focussed primarily on local government in England, we believe that giving local communities the power and autonomy to manage their own affairs should be embraced everywhere — devolution must not stop at the Scottish Parliament or the assemblies for Wales and Northern Ireland.

The Commission's vision

The Commission's vision is to build a local government finance system that: promotes self-reliance and self-sufficiency; encourages entrepreneurialism and innovation; promotes local decision-making on service delivery; is transparent in how it works and in the division of responsibilities between central and local government; and maintains support for the most vulnerable.

“Local authorities are best placed to understand the service needs of the communities they serve, to prioritise resources to meet those needs and to react to changes in local needs and priorities as they arise.”

What we were told and our emerging solutions

While some of the submissions addressed the issue of overall funding and ways of improving the existing system, a significant number proposed radical changes built around the principle of local autonomy. A number of potential solutions have emerged from the information presented to the Commission, which we believe could form the basis of a practical, politically deliverable reform programme for the next Parliament. These ideas are at an early stage. We are keen to hear responses from as many organisations and individuals as possible before we take these forward in our final report early next year. We have posed some questions to stimulate thinking, but would welcome views and evidence on any aspect of the system.

It's time to change

The dominant theme in the responses to the Commission was that the existing funding model is no longer sustainable; the public is being let down by the ineffective way in which "*precious public resources*" are being allocated and managed. The plea was for a system fit for an era of much lower funding and rising, more complex, demand: "*Local authorities are best placed to understand the service needs of the communities they serve, to prioritise resources to meet those needs and to react to changes in local needs and priorities as they arise.*"

Weaknesses identified in the current system were numerous, including poor incentives for growth, short-term decision-making, rushed ministerial announcements, excessive central control of individual funding streams, capping undermining local services and democracy, poor understanding in Whitehall of local government's priorities and pressures, and a failure to make timely adjustments to grant allocations to reflect population changes.

There was overwhelming demand for councils to be given greater freedom from central government in raising and spending money, with the ability to set taxes to meet local needs. There was a strong desire for more long-term certainty in funding levels to improve planning and financial management, and calls for local government to have some constitutional protection. There were many complaints about the structure and oversight of government programmes. There were pleased for government departments to collaborate more effectively at a local level by coordinating funding and oversight. The ring-fencing of central government grants "*prevents their application in creative and innovative ways*".

The Commission heard that one of the main tensions in the current system is that, despite sporadic moves to reduce ring-fencing and allow a more joined-up approach to spending public money in local areas, problems arise because each government department is accountable to Parliament for ensuring that funds for a particular scheme are spent in a particular way. This point was highlighted in the recent report by the Public Accounts Committee on assurance to Parliament for local government funding. For devolution to work effectively, the issue of accountability mechanisms in Whitehall needs to be addressed.

There was frustration with the relentless use of pilot schemes; one response called for Community Budget pilots to be taken to their logical conclusion — rolled out across the country and each area allowed to have one local funding pot.

> *"For devolution to work effectively, the issue of accountability mechanisms in Whitehall needs to be addressed."*

In the same spirit as the 'Community Right to Challenge' — which gives local people the right to take over local government community assets such as a village hall — there was a call for a 'right to devolve'. The idea is that if local government could demonstrate it could "*better coordinate specific growth related budgets and deliver better outcomes, it should have the power to challenge central government to devolve [them] to local growth partnerships*".

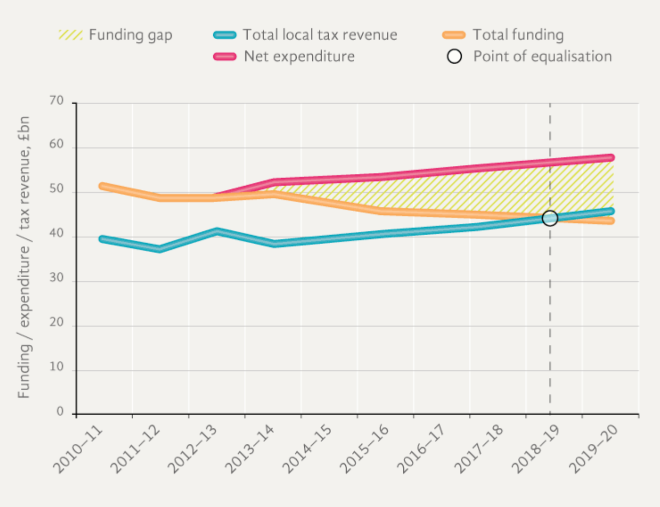
While there were eloquent arguments for stronger incentives to grow the local economy, there were also forceful demands for "*equality*" and "*a fair deal*" which recognised different capacities to generate growth. This is an inherent tension in the local government finance system, and one that arouses strong views. The commission will address this in its final report.

Local government's potential for self-sufficiency

The idea of local government becoming largely self-sufficient financially, by retaining and redistributing between each other the taxes which councils collect, is attractive to some and one which the Commission will explore further.

LGA data indicates that, by 2018/19, there is scope for local government to become self-sufficient if it retains all its business rates. By that year, council tax and business rate revenue will overtake local government's projected funding. To achieve this public spending will have declined sharply, to 37 per cent of national income. The data shows that around 106 councils would be in deficit — in other words, local taxes would not cover the costs of local services.

Total council tax and business rate revenue will surpass total local government funding in 2018–19



Source: LGA

There was support for the idea that a self-funding system would promote a confident, sustainable and constitutionally independent system of local government. The emphasis would be on self-reliance — councils and their communities looking to their own resources and ingenuity to create the additional income to meet local needs rather than pressing Whitehall for more government cash.

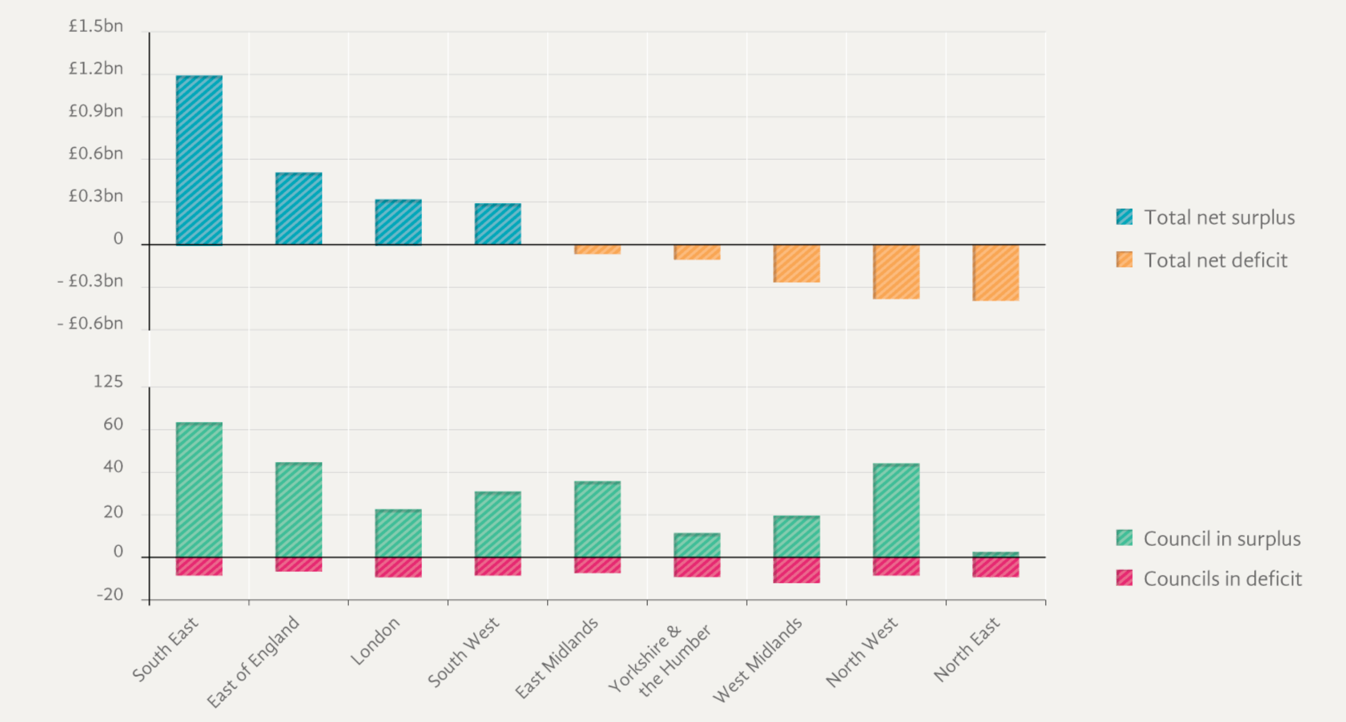
Self-sufficiency — the Commission's view

There are four advantages for central government arising in local self-sufficiency: it would be exempted from the ceaseless lobbying from special interest groups for more money; it would provide a powerful incentive for local authorities to take the lead in meeting key national objectives such as growing the economy and reducing welfare dependency; it would stimulate the ambition and entrepreneurialism of local government; and it would provide stable and predictable funding for local authorities.

Of course, self-sufficiency would require an element of equalisation. A key question would be how a self-sufficient funding scheme would manage this.

One approach would be for equalisation to operate at two levels. First, there would be equalisation within a unit such as a combined authority, for example Greater Manchester. There would then be equalisation between areas. There is less disparity in wealth between the different parts of the country than is often assumed. On the 2018/19 projections, self-sufficiency would require 247 councils to 'top up' 106 councils. Most of this could be managed through transfers between councils in the same area.

Self-sustainability in 2018/19 — a regional comparison



Source: LGA

Equalisation within an area could have a number of advantages over the current system. It would be simpler and more transparent; it could encourage strategic working between authorities; and it could lead to a more transparent discussion between local and central government on how to address on-going economic and social challenges. Under this type of model, the legislative requirements on local government do not change; the only thing that changes is the agent who pays the money. Councils would still be obliged to carry out the instructions of Parliament. We have been told that while the business rate retention scheme is not ideal, there are elements in the approach which point to how a system which strives to be both fair and provide incentives could work. The Communities and Local Government Select Committee, in its report Devolution in England: the case for local government, argues that the business rates scheme provides a useful signpost for further fiscal devolution.

Q1 *Is self-sufficiency the best way forward for the local government finance system? What are the alternatives?*

Q2 *How could an equalisation system work?*

Q3 *What are the potential drawbacks of a self-sufficient system? Could these be overcome?*

The tension between equalisation and incentives to grow

One of the toughest issues to resolve is the extent to which the ability of different parts of the country to meet need is equalised through a system of funding redistribution. At one extreme, equalisation removes the incentive to grow the local economy because any additional income through new businesses or other revenue sources would be shared out with areas that are struggling to grow. At the other extreme, the absence of any equalisation would leave areas of high deprivation unable to provide basic services.

The range of views around the appropriate balance between fairness and incentives to grow reflected the difficulties in this area. While some responses stressed the need for equalisation, there were strong demands for councils to have greater incentives to grow their local economies by retaining a much higher proportion of business rates.

> *“Reset gives areas with the lowest economic growth a chance to catch up, but the more frequent the reset the less the incentive to grow.”*

Among those pushing for equity, one argued that some of the most affluent areas see their business rates revenue grow with little action required by the council, while in more deprived areas councils have to work hard to secure even minimal increases. The logic of the business rate retention scheme *“is that, over time, those that need the most receive the least and those that need the least receive the most”*.

Under the business rate retention scheme, the Government decided it would be reset in 2020, which means the benefits accrued by the fastest-growing areas will end at that point and be redistributed under a new funding calculation, and everyone has to start again. Reset gives areas with the lowest economic growth a chance to catch up, but the more frequent the reset the less the incentive to grow.

Equalisation and incentives to grow — the Commission’s view:

In a country with wide disparities in wealth and deprivation and an expectation among voters of broadly equal access to basic services, some form of equalisation is essential. But an integral part of local autonomy is accepting greater responsibility for one’s own destiny. You are given the tools, and it is largely up to you to do the job. It has been argued that local authorities which succeed in growing their local economy should be entitled to retain a substantial portion of the revenue generated.

Q4 *What is the appropriate balance between equalisation and incentives to grow the local economy?*

Q5 *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?*

Q6 *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?*

Q7 *Should the method by which we seek to equalise between areas be separate from the system of distributing local government finance?*

Council tax

Council tax was identified as one of the major obstacles to efficient and effective local government. The failure to revalue properties means the tax in England is now levied on the basis of values in 1991. The system has decayed to the point where it lacks credibility with policy-makers and the public.

One proposal to break the impasse over property revaluation was to devolve to individual authorities, or groups of authorities, the power to determine the council tax bands and when properties are revalued. This would enable, for example, London boroughs which have seen many homes exceed £1 million to revalue their properties and set the bands accordingly. Eventually local revaluations could lead to changes to the equalisation mechanism between authorities to reflect changes in the tax yield, but that could be managed in such a way as to avoid the big national storm which is assumed to be inevitable if the entire country were to be revalued simultaneously.

Suggestions along these lines reflected the call made in the finance review of the government of London, Raising the Capital, for the power to hold periodic revaluations and determine the number and ratio of bands. Those who are championing these options see them in terms of fairness between taxpayers and retaining trust in the overall system.

Some suggested a more wholesale reform that would see council tax and potentially other property taxes, such as stamp duty, replaced with a progressive tax on property values levied, collected and mostly kept by local government. Such an approach would still require local revaluation, but, it is argued, would support the move to self-sufficient local government.

The capping regime was a particular target for criticism. It was felt that the current requirement to hold a referendum for tax increases of 2 per cent or more undermines local democracy, discourages local communities from taking a rounded view of local needs and priorities and unfairly penalises councils with historically low tax levels. It was also pointed out that since the Government routinely announces the coming year's grant just weeks before the beginning of the financial year, the opportunity for an informed referendum debate is lost.

Council tax — Wiltshire Council

Wiltshire Council has its council tax revenue reduced every year by £21 million because of the Single Person Discount.

Since 2010 its net government grant funding has fallen by £22 million. If the council had the freedom to determine who should get discounts, it estimates it could gain £14 million by reducing the discounts awarded to single working age householders and means-tested pensioners, enabling the council to invest in services that are now at risk while still protecting the vulnerable.

We were told that the 2 per cent limit is arbitrary, and referendums waste money. The freedom for councils to set the bands and manage council tax discounts and benefits was seen as key, both in terms of fairness and in managing the supply of housing, including rental accommodation.

The council tax freeze grant — the system whereby government rewards councils for freezing the tax — was opposed by some. One authority pointed out it *"rewards high tax-base authorities at the expense of low tax-base authorities"*. The policy was seen as the antithesis of localism, and there were calls for it to be scrapped. The idea of an independent body to assess local government's funding need had some support; the suggestion was that it would agree with government what services council should provide and the funding required to do so. This would aid transparency.

Council tax — the Commission's view

A property tax is an important component of a fair and effective local government finance system. We endorse the arguments put forward by Sir Michael Lyons in 2007, that a local property tax provides a strong connection between the tax people pay and their residence in the area. It reflects their financial stake in the community and its prosperity and their interest in local services and investment — which will themselves affect the desirability of local property.

A local tax needs to work locally. The system of national bands, operating uniformly from Hull to Kensington & Chelsea, fails to reflect local variations in property prices, often resulting in properties crowding into one or two bands. The original design of the council tax had a focus on limiting variations between bills. It is time to rethink this approach.

There is a paradox in central government's approach to local government finance. It reserves to itself powers to set the council tax bands and revalue the properties, but does not exercise them. In contrast, it is clear from the submissions we received that many local authorities would like the ability to set tax bands to suit local circumstances.

Property taxes have a role in managing house prices. As Lyons pointed out, the purpose of taxes is both to raise revenue and to affect behaviour. There is great concern that persistent price inflation is making housing unaffordable to many. If local authorities were allowed to determine the position of the bands and the levels of the taxes, they could help take some local heat out of the housing market. Conversely, a nationally set system exacerbates housing problems by distorting the housing market — forcing local authorities to levy taxes which are disproportionately low in some areas and disproportionately high in others.

Successive governments have chosen not to revalue properties or reform the way council tax works, making the problem more intractable still for the next administration. The different mix of property values in different parts of the country, with many areas containing a much higher proportion of lower rated Band A and B homes, severely affects the ability of individual councils to raise tax revenues. Like the poll tax and domestic rates before it, the council tax system is heading for collapse. The one way government can avoid the pain of again having to invent a new local tax system is to devolve control of council tax to local areas.

Q8 *Should councils have the power to revalue properties and set council tax bands? How might this work?*

Q9 *Should councils have the freedom to increase the overall tax revenue after a revaluation?*

Raising additional revenue

The freedom to ensure a high proportion of services are paid for through local resources is a long-standing local government demand. A number of the submissions have suggested that additional taxes could be an integral part of a new finance system, on the basis that it would moderate the burden on domestic tax and encourage investment in infrastructure and other priorities to support the growth of the local economy. The restrictions on council tax and other forms of local taxation have pushed many councils towards raising money through charging for services. According to the Audit Commission, councils raise around £10 billion a year through service charges — approaching half the revenue raised through council tax. As local government funding continues to decrease, charging for certain services is an important local power both to raise revenue and manage demand. However, there needs to be more open debate and transparency around their use.

Additional revenue — the Commission's view

The rationale for the power to raise additional revenues is that communities are best placed to decide if additional levies would benefit the local area by enabling investment in, for example, transport links or high street infrastructure. Business Improvement Districts (BIDs), where a ballot of local businesses approves a levy on the local business rates, shows how this can work. Raising additional revenue is an important aspect of a sustainable finance system geared towards economic prosperity and community well-being. We will explore this further, recognising the principle of *'no taxation without representation'* — those who are taxed must have a voice in deciding how taxes are set and used.

Q10 *What additional streams of income for local government would benefit their communities?*

Q11 *How would people affected by new local revenue sources be given a voice in deciding how it is raised and spent?*

Q12 *Should an additional tax be permitted to become a permanent source of revenue, or should they be time limited?*

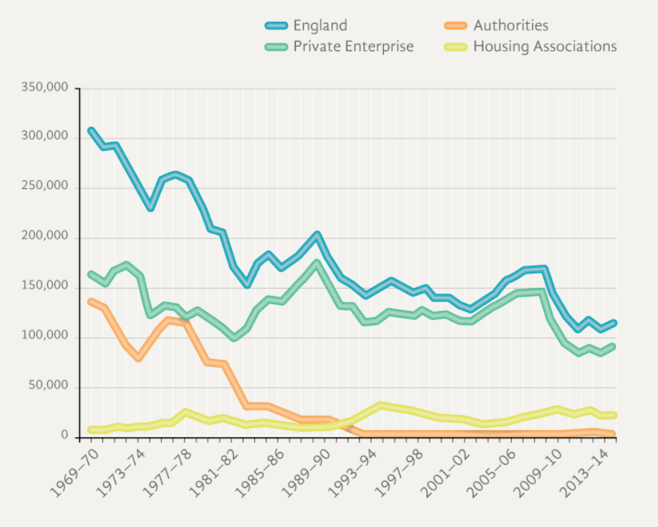
Q13 *What sort of limits, if any, should be imposed on the levels of such taxes?*

Meeting the country's housing needs

Over half the submissions addressed housing. The key issues for housing were increasing the supply — fewer than 110,000 homes were built in 2013 compared with an annual increase in the number of households of around 230,000 — and providing far more affordable housing. There are 1.7 million households on waiting lists for affordable homes across England. Any solution to the housing crisis needs to meet the specific needs of local areas, as there are huge variations in demand and supply.

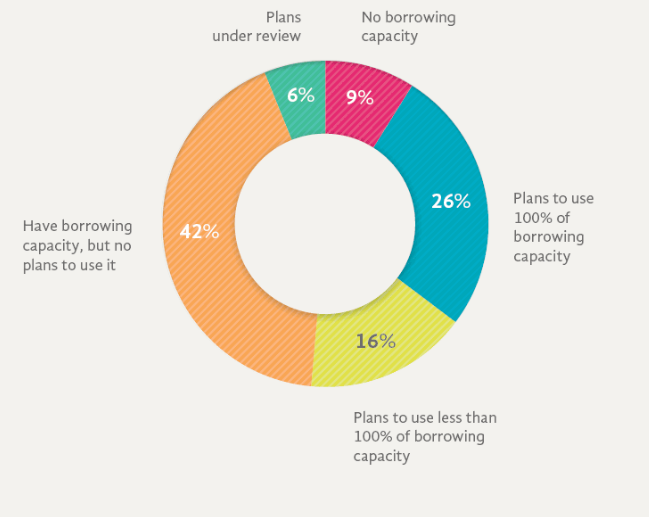
There was a widespread belief that the housing crisis will not abate until local government again plays a leading role in the supply of social housing. The submission from the Chartered Institute of Housing illustrated the potential for increasing the social housing supply. It highlighted LGA research which indicates councils could build an additional 15,000 to 17,000 homes a year within five years if borrowing constraints were removed or substantially relaxed. It gave the example of Birmingham City Council, which currently plans to build over 2,000 new homes in ten years, investing £254 million from its housing revenue account. But if its borrowing cap of £1.14 billion was lifted it could build a further 18,000 homes by 2031, meeting a quarter of the city's housing requirement.

Housing completions by tenure since the 1970s



Source: Department for Communities and Local Government

HRA borrowing capacity (LGC survey findings) Spring 2014



Source: Local Government Chronicle

Options include allowing councils to act as registered social landlords, and to be able to borrow for capital investment that pays a return, including housing.

There was strong support for allowing authorities to trade their borrowing limits among themselves — enabling councils with spare borrowing headroom to make this available to other authorities, allowing increased housing capacity in areas that were willing and able to build. Recent surveys have indicated that only 9 per cent of housing authorities have reached their borrowing limits, but borrowing capacity is largely in the wrong places for house-building.

The models put forward include an incentive for the contributing authority in the form of a 'commitment fee' charged on the headroom transferred. As councils increasingly cooperate across local areas, particularly if there is a sub-national element to funding distribution, there is an inherent incentive to work together in meeting housing need. It may well be in the interests of one authority to stimulate house-building next door.

There were calls for the housing revenue account to be taken out of the definition of the Public Sector Borrowing Requirement, arguing that it would bring this country into line with practice in Europe.

Other measures to increase the housing supply included powers to tax undeveloped sites, and providing more flexibility for local government pension schemes to invest in housing — an idea backed by the Royal Institute of British Architects' Future Homes Commission in 2012.

A number of respondents suggested the New Homes Bonus needs to be reformed. The scheme was established by the government as an incentive to increase housing supply in England and cost £2.2 billion from 2011–15. We have heard that the scheme, while benefiting some councils, has the effect of reducing income for a number of local authorities in deprived areas. The Commission has also been told by county councils that the distribution of the New Homes Bonus between county and district councils does not adequately reflect the counties' role in providing supporting infrastructure for housing developments. Once again this raises the question of how incentives can be introduced which are sufficiently flexible to meet the very different contexts in which local authorities and their partners are working.

Many low income families have benefited from the Right to Buy scheme but only half the properties sold have been replaced with new social housing. Since low-cost housing is where the need is most pressing, many submissions argued that Right to Buy needed to be reformed. Options included making its use discretionary, returning all the receipts to local authorities to fund new housing, and reducing the current Treasury top slice to 15 per cent of receipts. Some suggested that it should be scrapped altogether.

Overall there was a strong belief that local government needed to play a major role in house-building. As one submission said: "*It seems neither right nor possible to tackle the housing crisis and deliver a step change in housing delivery without local authorities making a more direct and sizeable contribution to supply.*"

Housing — the Commission's view

The Commission believes that the legitimate desire to control borrowing is being pursued without regard to wider social and economic imperatives, while the determination to marginalise local government's role in the provision of social housing is a doctrine from three decades ago which, again, fails to recognise the scale of the problem we now face. Local government is not the whole answer to the housing crisis, but it is a crucial part.

The Commission supports the recommendation in the IPPR report Together At Home that the Government reviews its approach to the classification of local authorities' housing debt. This is currently capped for councils despite the self-financing brought in by reforms to the housing revenue account. If, instead of focusing on the public sector borrowing requirement (PSBR), the government adopted fiscal rules and accounting practices based on general government borrowing and debt (as happens elsewhere in Europe), local authority house-building would be excluded from the target measure.

Each year of inaction exacerbates the housing problem. Addressing the housing issue will be a substantial focus of the Commission's final report.

Q14 *Should restrictions on councils' borrowing for investment that pays a return be lifted?*

Q15 *Should councils be allowed to act as registered social landlords?*

Q16 *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?*

Q17 *Should councils control Right to Buy, including having the power to scrap it?*

Stimulating growth

Every submission addressed the need to stimulate economic growth. Local government is one of the few parts of the public sector that uses its resources to drive the economy, and adapts its economic strategy to meet the particular challenges and opportunities of the local area.

For example, councils help business access finance in a variety of ways, including direct loans. Prudential borrowing by South Staffordshire, Wolverhampton and Staffordshire councils secured the Tata investment in the Jaguar Land Rover low emissions engine plant in South Staffordshire, with the councils leveraging £400 million of private sector investment. Other councils have underwritten risk to promote housing and other developments.

> *"Local government is one of the few parts of the public sector that uses its resources to drive the economy, and adapts its economic strategy to meet the particular challenges and opportunities of the local area."*

But, with greater autonomy and devolved powers councils could do even more to encourage economic development, such as using local commissioning to overcome the mismatch between local and national infrastructure planning, supporting far more local development through prudent risk-taking, and cutting centrally imposed regulations which drive up business costs and inhibit expansion. The most common recommendations for strengthening local government's ability to support growth were: increase business rate retention; allow additional local taxes; introduce multi-year funding settlements; and increase local pooling of public sector budgets.

There was support for implementing fully the recommendations of Lord Heseltine's review of economic growth, which called for the devolution of up to £50 billion of government funding over four years to support growth instead of the £2 billion a year Local Growth Fund now proposed.

Business rate retention — County Durham

The Business rate retention scheme can have perverse effects, potentially discouraging support for manufacturing industry in favour of retail units.

The new Hitachi factory in Newton Aycliffe is due to open in 2015. It is expected to create 600 jobs in the factory plus many more in the supply industries, a lot of which will be highly skilled and highly paid. The rateable value and 49 per cent business rate retained by the council is forecast to be:

Forecast Rateable Value	**£1,140,000**
Multiplier	**£0.482**
Durham Retention (49 per cent)	**£269,245**

This compares to a proposed supermarket site in the county where the jobs will be low paid and part time. The rateable value and 49 per cent business rate retention is forecast to be:

Forecast Rateable Value	**£3,100,000**
Multiplier	**£0.482**
Durham Retention (49 per cent)	**£732,158**

So the business rates retained by the council from the supermarket will be more than £460,000 higher than for the Hitachi factory. Durham believes the Government's objective of encouraging manufacturing would be better served by allowing local authorities to retain 100 per cent of business rates for industrial developments.

Stimulating growth — the Commission's view

Under business rate retention, local authorities are incentivised to encourage economic growth through retaining a significant portion of the taxes raised in their area. In theory this means that the more they raise the more they keep, but it is distorted by a complicated system of tariffs and top-ups which undermines the incentives and makes it difficult to understand how it works. Business rates have hints of self-sufficiency, but the overall package is too limited to be effective.

The balance between local choice and national entitlement

The Commission recognises that there are some aspects of local government's responsibilities where the public expects the same outcomes across the country. For example, there is an expectation of the same quality of child protection, but decisions about other aspects of child support such as school transport and nursery provision are best taken locally.

The right balance between national expectations and local autonomy is less obvious for adult social care. While there are common expectations around adult safeguarding — keeping adults safe from harm — there is wide variation in the extent to which local authorities meet low and medium levels of social care need; many councils now only commit to meeting critical and substantial need.

Local choice and national entitlement — the Commission's view

In moving to a system of greater local autonomy, the public and Parliament must have confidence that some areas of service provision will deliver comparable outcomes everywhere. We believe it is important to have a national conversation about the appropriate balance between consistent outcomes and local decision-making. We are keen to solicit a wide range of opinion on this issue.

Q18 *Which local services should be aiming to achieve comparable outcomes across the country?*

Moving from welfare to work

Submissions to the Commission stressed the importance of local authorities having the freedom to adapt the welfare, skills and training systems to meet local needs. One of the strongest calls was for a greater role in shaping welfare to work programmes. A common demand from businesses is for councils to replace the current plethora of central government training and skills schemes with a coherent strategy that matches skills to the needs of local businesses. This is another example of how handing a national scheme over to local control will ensure more effective use of public money.

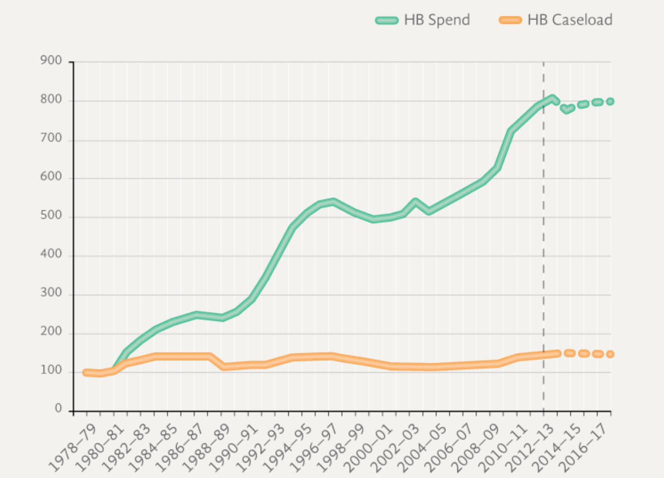
Recommendations on welfare payments included allowing individual councils to decide whether and how to run the spare room subsidy scheme and establishing full local control of council tax support so local areas could shape discounts, exemptions and benefits.

The recent partial localisation of council tax support — with local authorities being asked to run the council tax benefit system — was seen as an example of councils having responsibility for a service without the power to make it work effectively. The Government cut the scheme's funding by 10 per cent and imposed a framework prescribing the classes of people it had to cover and the reductions to which they were entitled. This protection — notably aimed at pensioners — pushed more of the tax burden onto particular deprived groups and blocked potential changes such as reducing the single person discount.

We were told that localising central government housing capital grants and full control of housing benefits could lead to a rebalancing between investment in housing stock and subsidising rents.

Around £20 billion of housing benefit is paid annually, two thirds of it for social housing. According to the IPPR the housing benefit bill has grown in 2011/12 prices from £1.1 billion in 1970/71 to £22 billion in 2010/11. This means just 5 per cent of total public housing spending goes on house-building. We were told that this has been driven by increased use of private sector landlords, higher rents and an increase in the working age client group. Again, this is administered by local government without the freedom to shape it to local circumstances.

Change in housing benefit Caseload and Spend (indexed 2012–13 prices)



Source: Department for Work and Pensions

Welfare and work — the Commission's view

Policy around housing, welfare support and training needs to be developed as a single coherent framework which supports the vulnerable, helps people find work by developing the skills that local businesses need, and shifts public spending from subsidising rents to investing in social housing.

Councils understand local skills needs through their work with local businesses, but have limited powers to shape the supply of local labour. National skills programmes will never be as successful as local ones because they cannot hope to meet those specific needs.

Giving local government, with businesses, more control over skills development would benefit the UK economy.

We recognise that bringing down rent levels is not straightforward, because it would diminish the supply of private rented housing. However, if councils can lower the housing subsidy bill through lowering rent levels or demand for benefit, they should be able to use that money to invest in new housing. The Commission will explore these ideas further.

Q19 *How could welfare, housing and skills policies work locally?*

Q20 *What should the local government role in reducing welfare dependency and developing skills?*

Q21 *Is there a financial model that incentivises councils to reduce welfare dependency?*

Supporting families and young lives

We have been told that the costs of failing to support young people are high — £5,485 to lock up a young offender for a month, £46,389 to take a child into care and £4,528 to maintain an 18–24 year old NEET for a year. Coordination of different services to provide a joined up intervention when families hit problems has been improving, with the Troubled Families programme building on best practice in local government.

However, practitioners have told us that still more could be done in Whitehall to ensure that departments work together efficiently and coherently. The system would deliver better outcomes for children and families if it was less fragmented.

Health and social care — finding the right route to integration

The emphasis here was on increasing the focus on prevention and early intervention, and accelerating the integration of health and social care services. New rules *"should be based on what benefits the patients/people first, rather than responding to the old architectural divide"*.

Ideas included pooling budgets and risk between health and local government, possibly through a single commissioning system across health and social care led by health and wellbeing boards. There was support for reforming the NHS 'tariff' payment system to encourage greater collaboration on prevention and early intervention.

Supporting families and young lives — the Commission's view

Local support for families and children typifies the fragmented approach to services imposed by the current system, with money coming through around a dozen funding streams.

These include the mainstream and special needs elements of dedicated schools grant (up to £36 billion), early years children's support (up to £9.2 billion), free nursery places (£543 million), adoption support and reform (£150 million), Pupil Premium grant (up to £1.8 billion), Pupil Premium Plus (up to £40 million), public health grant for young children (£850 million from 2016), education services grant (£800 million), free school travel (up to £38 million), and the early years element of dedicated schools grant (up to £2.1 billion), as well as councils' own spending of around £4.5 billion.

The Commission recognises that addressing this issue is one of the most difficult areas of reform because it requires a big change in political culture. Nonetheless, the waste in money and life opportunities perpetuated by the current fragmented system cannot be allowed to continue.

Q22 *How can we enable local communities to provide efficient, joined up support for children and families?*

Health and social care — the Commission's view

The health and social care system faces immediate challenges from rising demand and fixed or falling resources, but more fundamentally the needs of the population are changing with an ageing population and an increasing prevalence of long term physical and mental health problems. There is a growing consensus among politicians, policy makers and practitioners that to meet this challenge we need better coordinated care, but too often services feel fragmented.

The responses to this Commission make the case for better integration of care, and many have called for pooled budgets and joint commissioning of health and social care. But evidence around effective models of integrated care and the role of financial tools such as pooled budgets and payment incentives in delivering integration is limited, so there is uncertainty about how to deliver integrated care for local populations at pace and scale. In the next phase of this review we will explore the role of financial levers to support integrated care, building on the range of local initiatives such as the Better Care Fund and integrated care pioneers. The Commission will also consider how to drive forward change with the necessary urgency without further structural reorganisation of the NHS, and respecting local circumstances.

Other solutions should be explored, such as money following the service user. This may prove a more effective and practical path to integration than trying to force together two fundamentally different funding systems.

Q23 *What is the best way for local government and the NHS to collaborate in the commissioning of health and social care, without another restructuring?*

Q24 *If the principle was adopted of the money following the service user through the health and care system, how might this work?*

Better financial planning

We have heard that the practice of announcing each year's funding settlement just a few weeks before the new financial year has led to rushed budgeting, and that it pushes councils towards increasing reserves, which ministers have routinely attacked. Many submissions asked for the government to announce its local government funding plans at the beginning of each Parliament.

Financial planning — the Commission's view

Effective financial planning matters. At a time of austerity every effort should be made to ensure that those charged with managing taxpayers' money are able to do so effectively. Common sense dictates that local authorities should be given their funding allocations as far in advance as possible; there is no justification for announcing the distribution of billions of pounds just weeks before the new financial year. The Commission sees strong merit in setting out the spending plans for a whole Parliament.

Q25 *How could central government support more effective financial planning?*

Next Steps

Over the coming weeks the Commission will hold a series of seminars in which the issues and questions raised in this report will be considered and tested against the five priorities — housing, growth, health and social care, welfare and early intervention.

The Commission would welcome further submissions in response to the interim report and these can be sent to enquiries@localfinancecommission.org

It would be helpful to receive submissions by 28 November 2014.

The Commission will continue to engage with stakeholders across the country in the coming weeks. We will listen to the views, consider the responses to this interim report and reflect on other research and expert advice.

We plan to publish our final report early in 2015.

Appendix 1

List of organisations that have made submissions to the Commission

- Association of County Chief Executives
- Association of Directors of Public Health
- Association of North East Councils
- Birmingham City Council
- Bradford District Council
- Brighton and Hove City Council (Unitary)
- British Property Federation
- Cambridgeshire County Council
- Camden Borough Council
- Cannock Chase Council
- Chartered Institute of Housing
- Cleveland Fire Brigade
- Core Cities Group
- Cornwall Council (Unitary)
- County Councils Network
- Cumbria County Council
- Dartford Borough Council
- Devon County Council
- District Councils Network
- Dorset Fire Authority
- Early Intervention Foundation
- East Northamptonshire District Council
- Essex County Council
- Greater Manchester Combined Authority
- Hampshire County Council
- Hampshire Fire and Rescue
- Hartlepool Borough Council
- Havering
- Hinckley and Bosworth Borough Council
- Joint submission by the LGA Fire Service Management Committee, The Chief Fire Officers Association and the Fire Finance Network
- Kent County Council
- Kettering Borough Council
- Knowsley Borough Council
- Leicester, Leicestershire and Rutland Combined Fire Authority
- Leicestershire County Council
- Liverpool City Council
- Local Government Shared Services
- London Borough Lambeth
- London Councils
- Melton Borough Council
- Milton Keynes Borough Council (Unitary)
- National Audit Office
- National Housing Federation
- National Union of Students
- Newcastle City Council
- Norfolk County Council
- Northamptonshire County Council
- Peterborough City Council
- Police and Crime Commissioner — Hampshire
- Police and Crime Commissioner — Lancashire
- Police and Fire Commissioners Treasurers Society
- Preston City Council
- Rev Cooper (rural parish Preston)
- Royal Town Planning Institute
- Rural Service Network
- Slough Borough Council (Unitary)
- Society of County Treasurers
- Solihull
- South East England Councils
- Sparse Rural
- Stafford Borough Council
- Stockton-on-Tees
- Stoke on Trent City Council (Unitary)
- Suffolk County Council
- Tandridge District Council
- The LEP Network
- The Special Interest Group of Municipal Authorities (outside London) within the LGA
- Training Standards Institute
- Tyne and Wear Fire and Rescue
- Visit England
- Warwickshire County Council
- West Oxfordshire District Council and Cotswold District Council
- Worcestershire County Council

Appendix 2

Overview of local government finance

Revenue

Local	Council Tax
	1/2 Business Rate Retention
Central	RSG
	New Homes
	Bonus
	Other Grants

Local	Housing Benefit
Central	Council Tax Benefit

HRA

Income

Funding for Services

Funding for Welfare

Ringfenced housing income and expenditure £8.2 bn

Capital

Capital receipts	Local
Borrowing	
Revenue	Central
Central Government Grants	

Expenditure

Local authority net revenue expenditure on services is just over £100 billion per year

Education	Ringfenced	£37 bn
Highways		£5 bn
Children's		£7 bn
Adult's		£15 bn
Housing	Ringfenced	£23 bn
Culture, environment, planning		£9 bn
Fire		£2 bn
Central		£3 bn
		£101 bn

Capital expenditure in 2013/14 was £24 billion

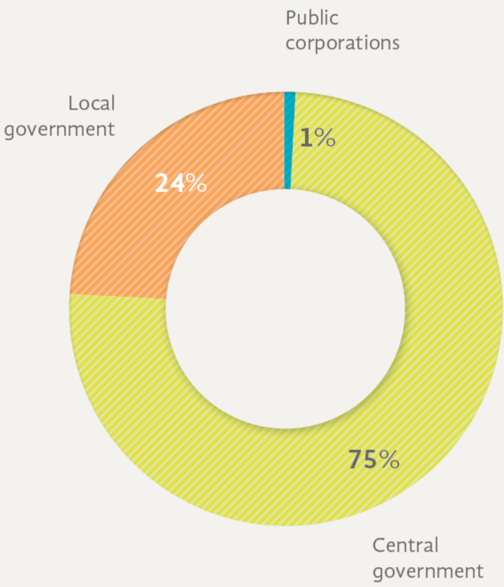
Education	24%
Housing	20%
Transport	32%
Other	24%

Net controllable expenditure = £51 bn
(excludes expenditure on schools and housing)

Source: LGA

Local government finance in context

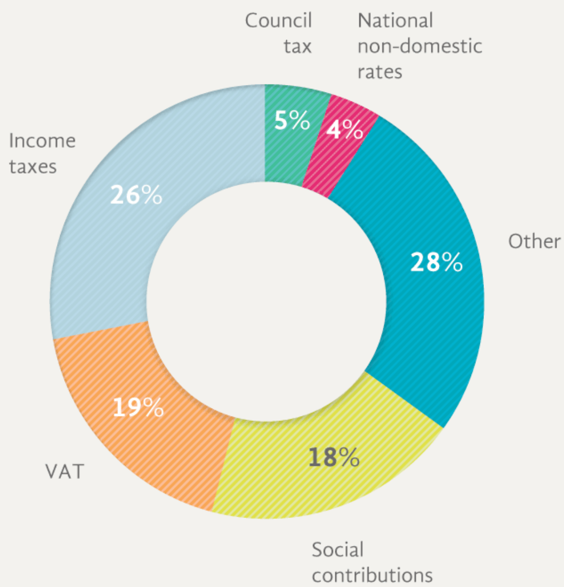
Local government accounts for 24 per cent of total public expenditure



Source: Office for National Statistics

Council tax and National non-domestic rates

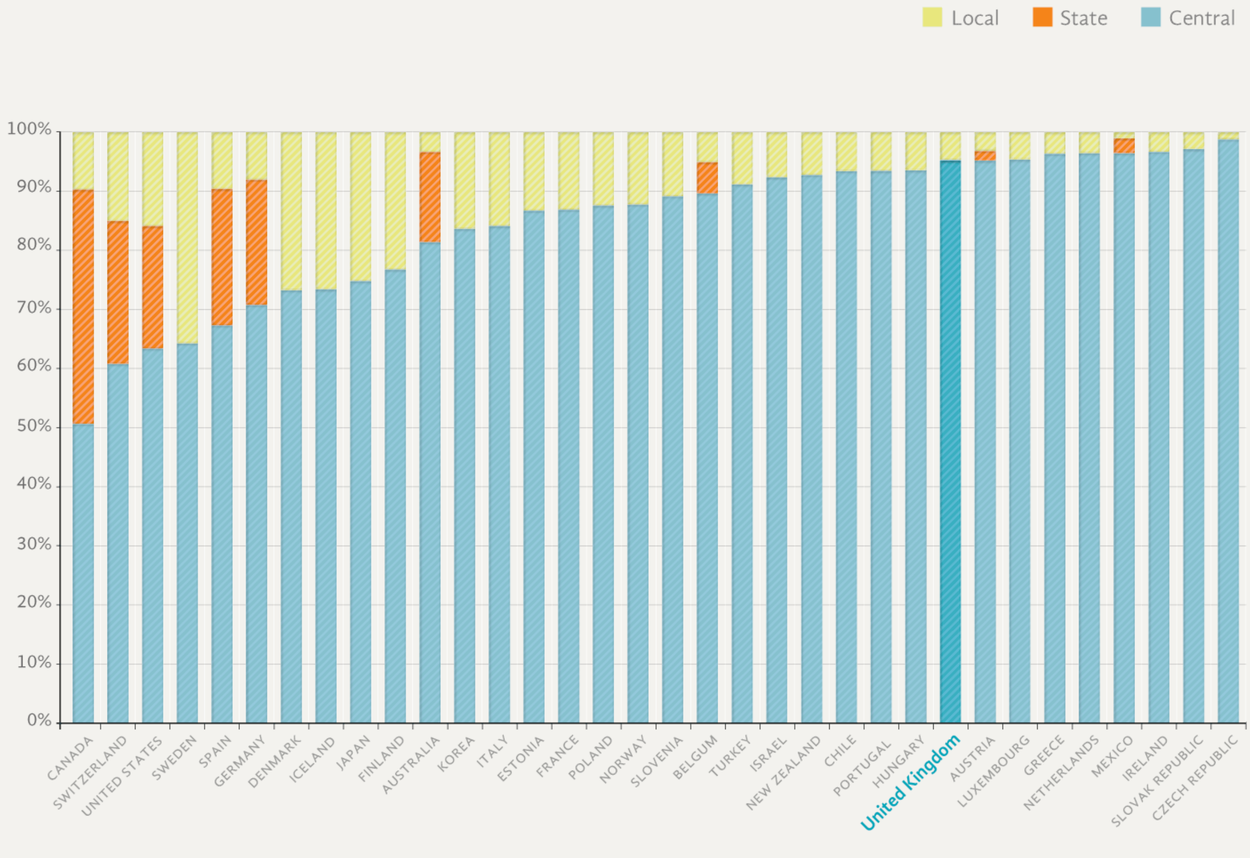
Council tax and National non-domestic rates represent just 5 per cent and 4 per cent respectively of total government receipts



Source: DCLG

Tax revenue by tier as a percentage of total tax revenue in OECD countries 2011

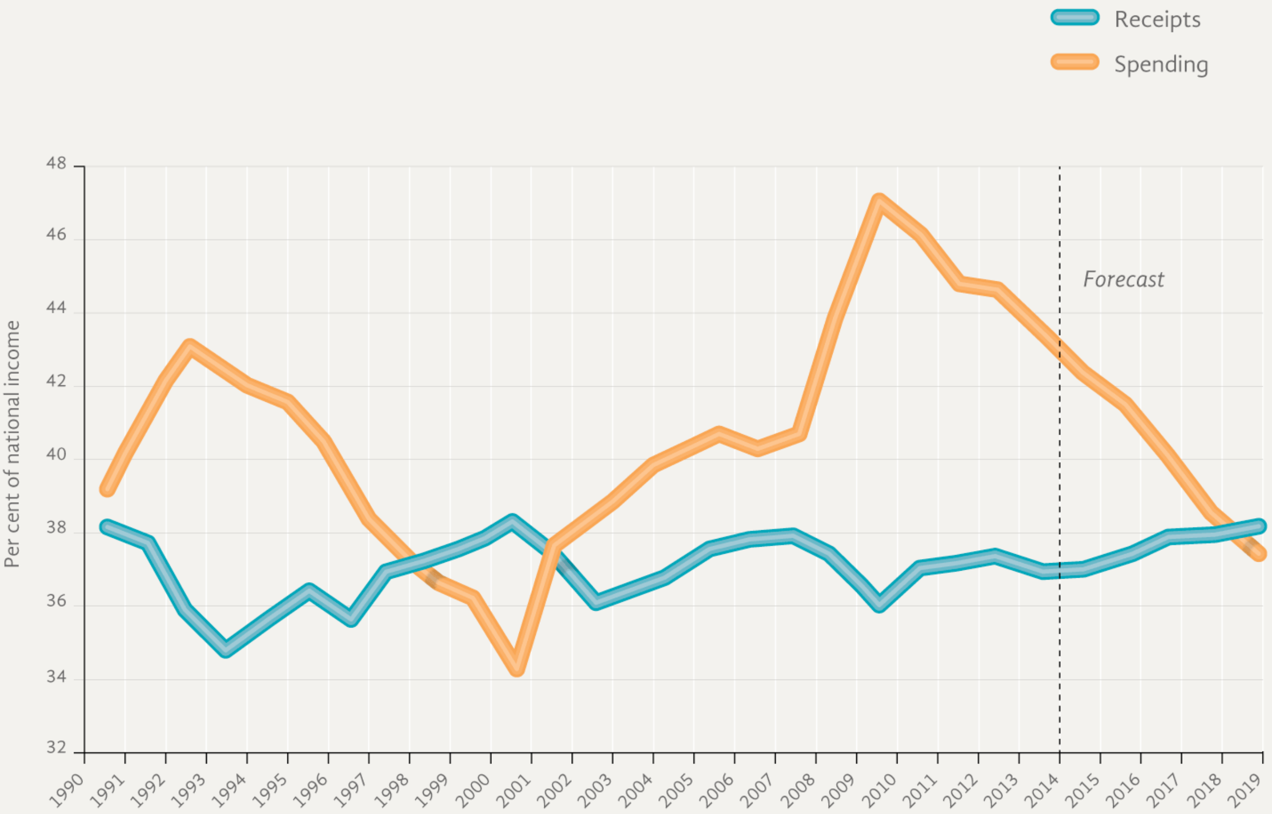
International comparisons show that the UK is one of the most centralised countries



Source: OECD

The gap between receipts and spending

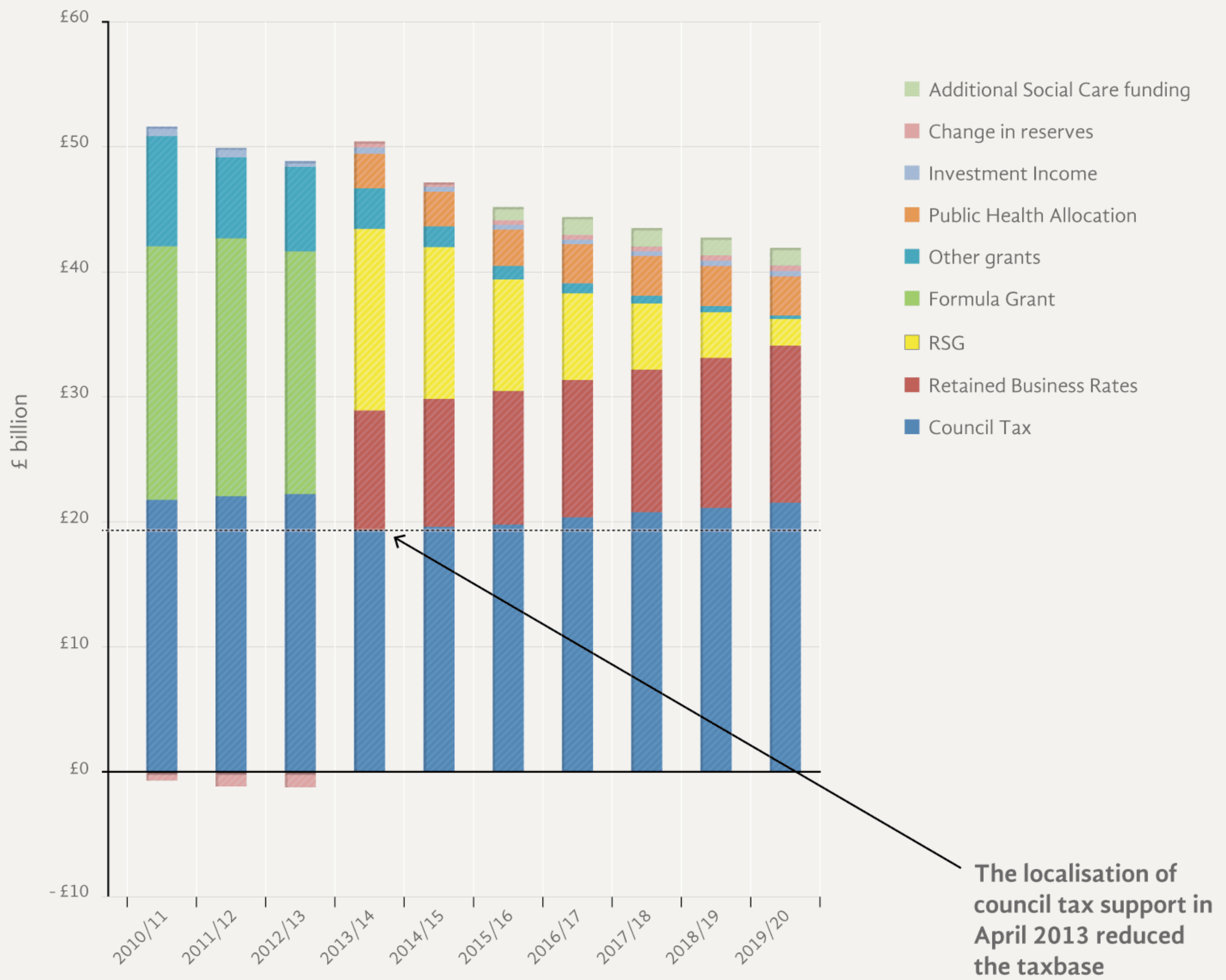
Public spending is set to fall to 37 per cent of national income by 2018/19; this is a level not seen since 2001 and not consistently seen since the 1960s



Source: ONS, OBR

Local authority funding 2010/11 — 2019/20

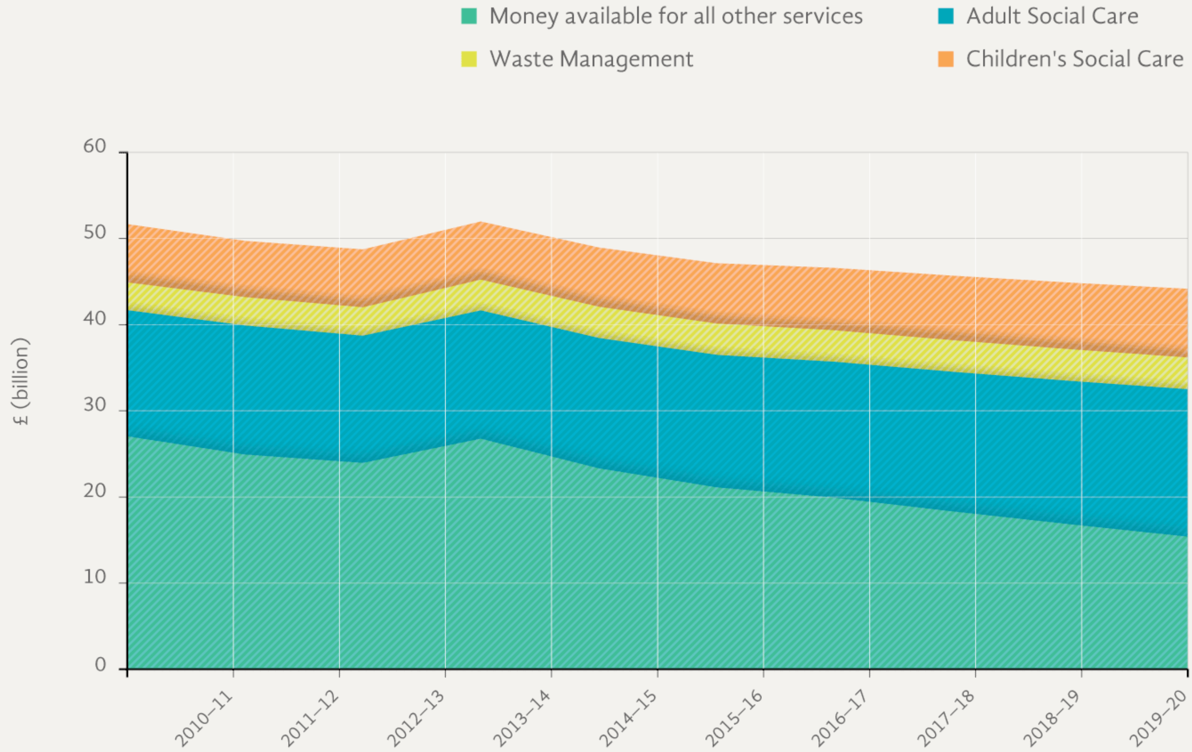
The fall in public funding since 2010/11 has resulted in particularly large reductions for local government. This is partly as a result of the protection of other areas of expenditure such as health, education defence and international development. Total funding is projected to fall to £43.4 billion by 2019/20. This includes £3.1 billion of Public Health funding which carries with it a new responsibility.



Source: DCLG, LGA

Shrinking resources for non-statutory services

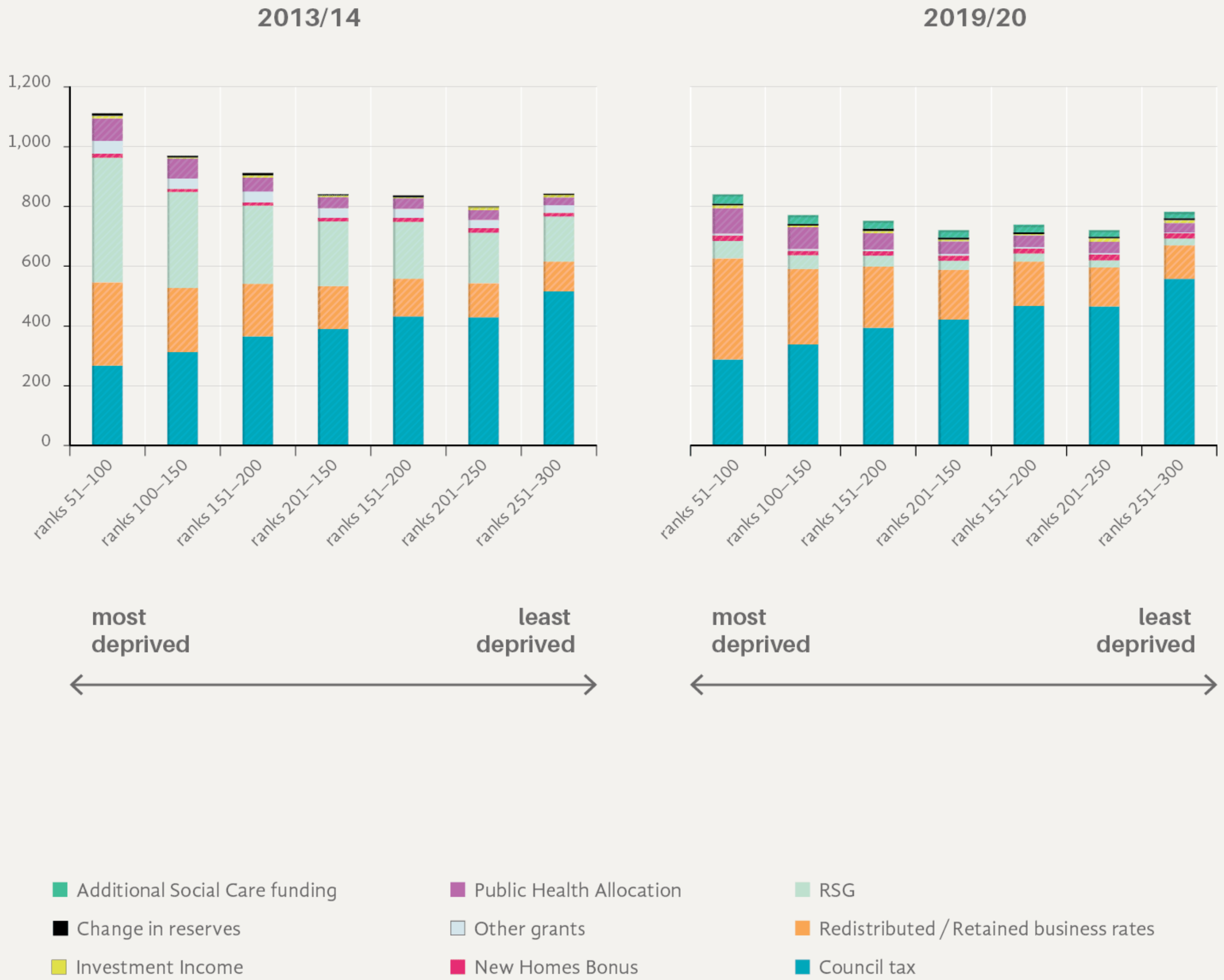
When we account for inflation and demographic pressures in waste management and social care, the money available for all other services shrinks from £26.6 billion to £15.1 billion (and £3.1 billion of this is for new Public Health responsibilities).



Source: LGA

Per Capita Total Funding reduces by 28 per cent for the most deprived council and 4 per cent for the least deprived—between 2013/14 and 2019/20

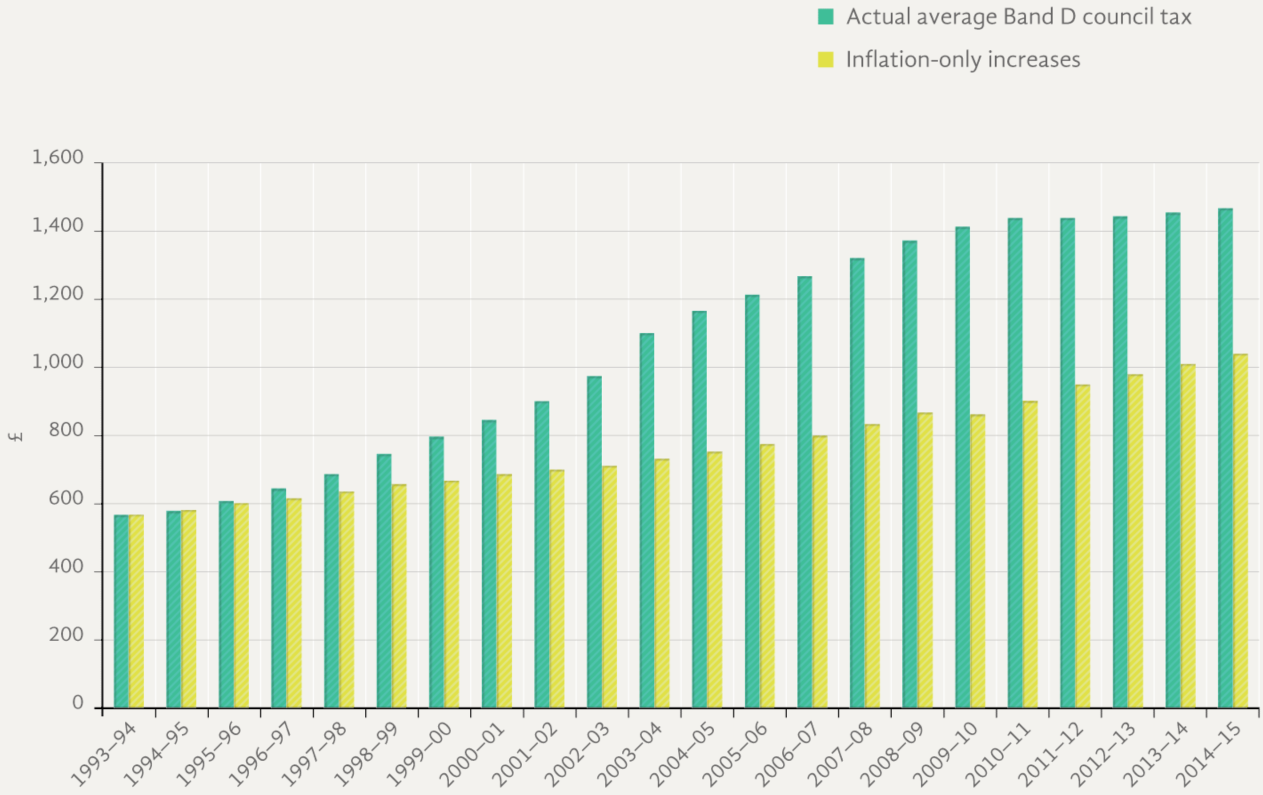
The fall in funding for local government has been delivered through reductions in government grant (Revenue Support Grant). As a result, those areas which are most deprived and most dependent on government grant have seen the largest percentage reductions. The consequence of falling revenue support grant is that funding per head is more equal.



Source: DCLG, LGA

Council tax

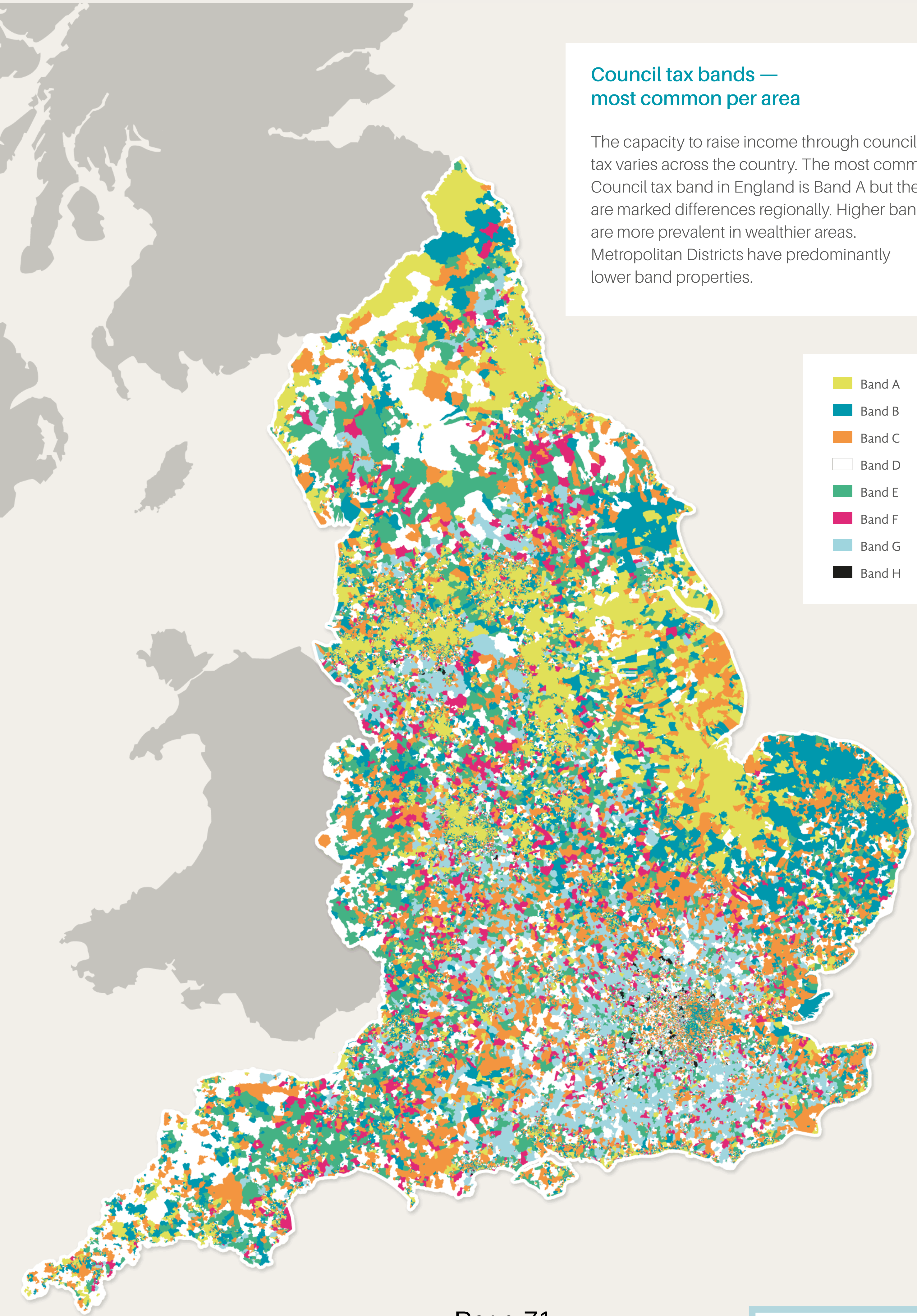
Council tax, one of the main sources of local income, is under pressure. Band D council tax from 1993 (£) has been flat since 2010/11 despite decreasing grant yield.



Source: DCLG, LGA

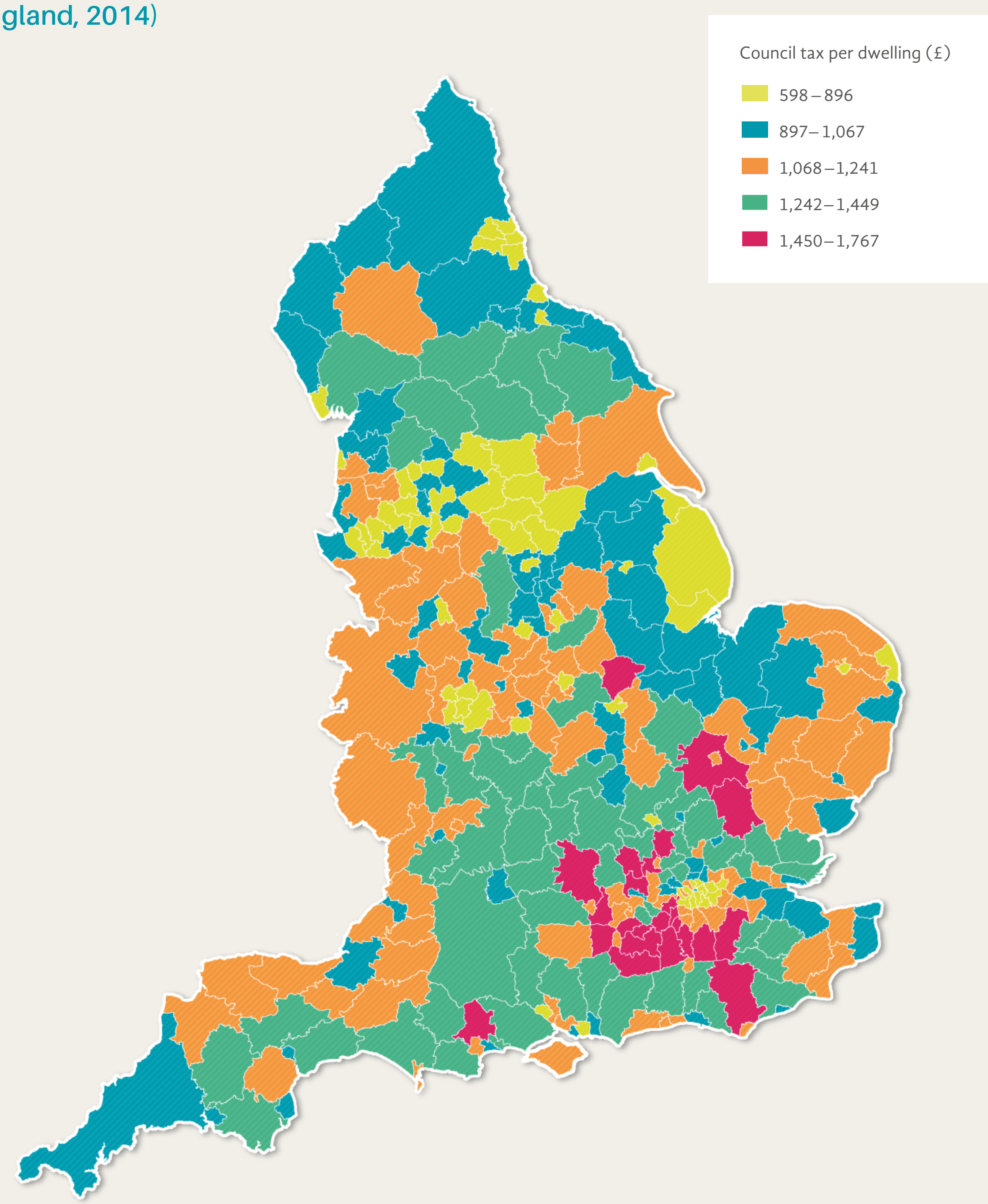
Council tax bands — most common per area

The capacity to raise income through council tax varies across the country. The most common Council tax band in England is Band A but there are marked differences regionally. Higher bands are more prevalent in wealthier areas. Metropolitan Districts have predominantly lower band properties.



Source: DCLG, LGA

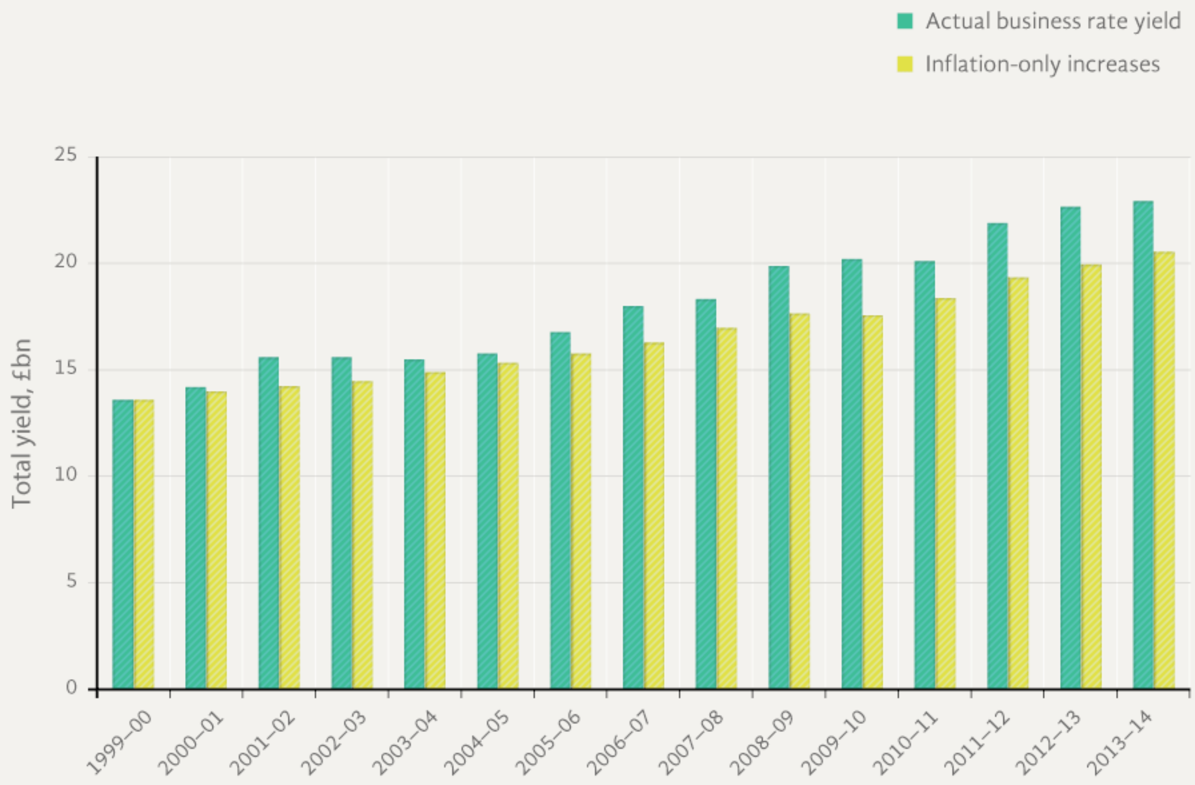
Council tax per dwelling (England, 2014)



Source: DCLG, LGA

Business rates

Current total Business rate yield is worth £22.4 billion

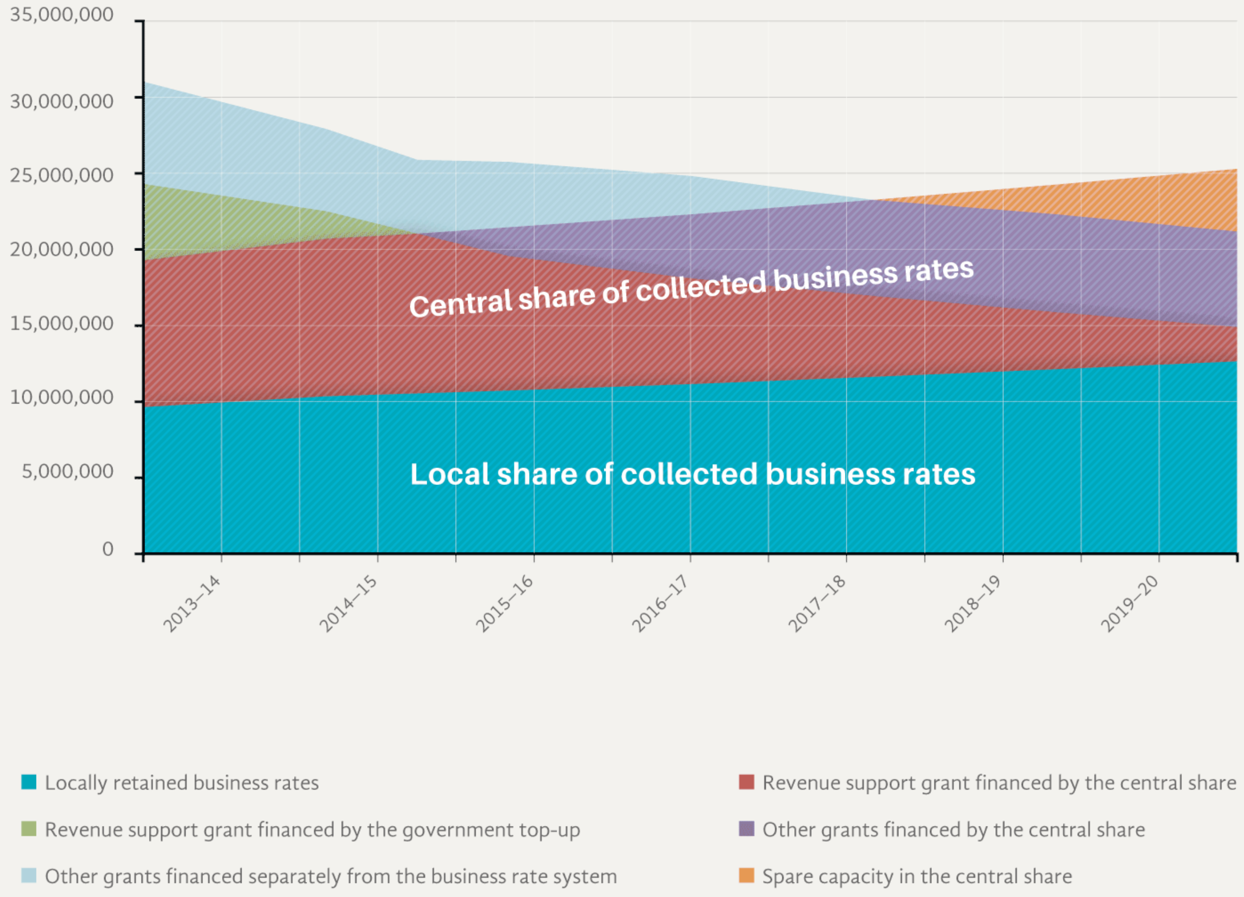


Source: DCLG, LGA

The projected growth in business rates

Since April 2013, councils keep 50 per cent of locally collected business rates (the local share), with the other half transferred to central government to be used to finance grants (the central share) Local share of collected business rates.

The only grant financed through the central share is currently RSG, but this is likely to change as RSG reduces to a level less than what is collected through the central share. At this point, other grants should be financed with the remainder. It is predicted that in 2015/16 there will be a gap of £3.2 billion between revenue support grant and the central share



Source: DCLG, LGA

Council Reserves

When looked at in terms of annual net expenditure, reserves do not appear to offer councils scope to offset falling income. 7 per cent of annual net expenditure represents the equivalent of about 26 days net expenditure.

Estimates as at 31 March 2013, using 2012/13 RO data	£ bn	% Annual net Expenditure
Councils Earmarked Reserves	11.1	22%
Councils General (unallocated) Reserves	3.6	7%
Total "usable" reserves	**14.7**	**29%**

Source: DCLG, LGA

Non-school revenue reserves as a % of revenue expenditure as at 31 March 2013

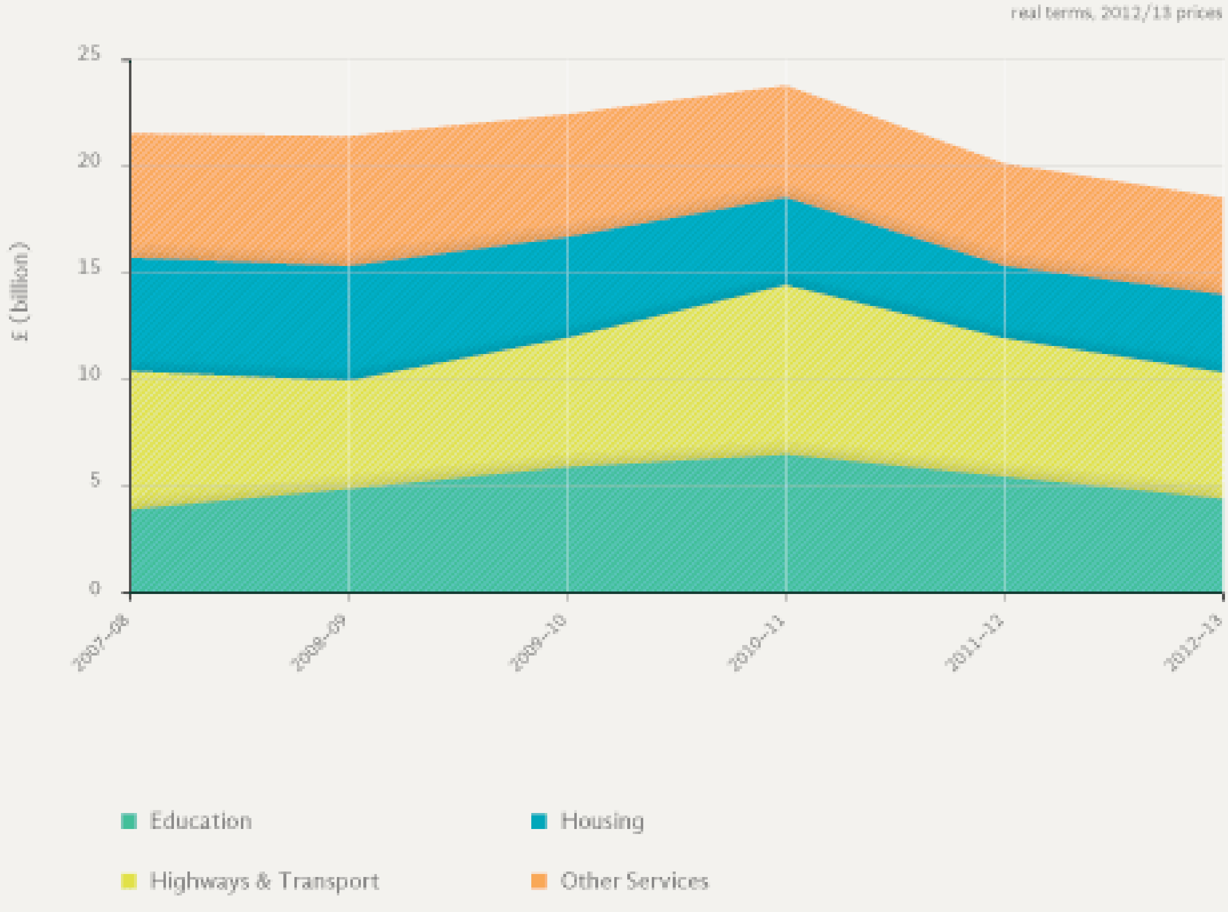
The picture on reserves varies across councils

Source: DCLG, LGA

Capital expenditure by category

Capital

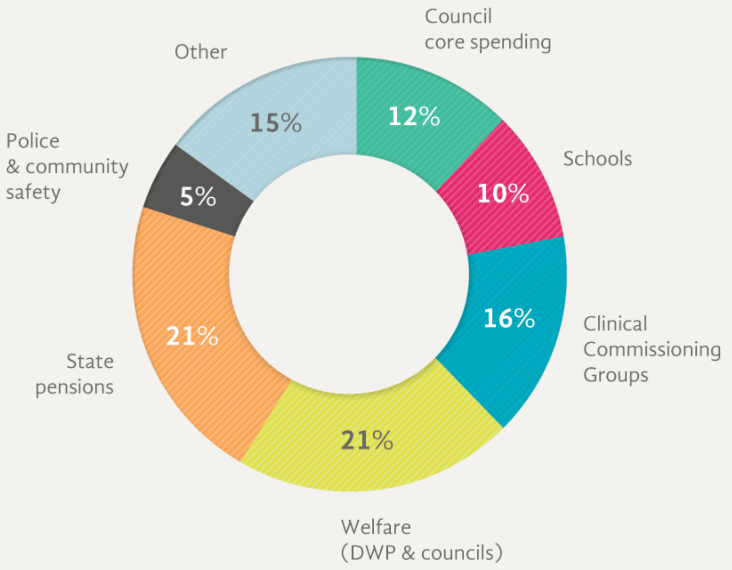
In real terms, capital spending decreased by 13.4 per cent between 2007/08 and 2012/13. During this period, capital expenditure on education has increased by 11.4 per cent, while spending on housing has declined by 32.0 per cent and other services by 20.7 per cent.



Source: DCLG

Make-up of place specific spending, 2013/14

Council core spending accounts for around 12 per cent of place based spending



Source: DCLG, LGA

Appendix 3

Changes suggested by respondents to the Commission

How funding is allocated

The local government finance system must have some level of redistribution within it to ensure that there is some process of resource equalisation in place.

Additional funding has recently been made available to support rural needs. The allocation should recognise pockets of need, but it is currently allocated based on net rather than gross sparsity.

Top slicing and holdbacks of local authority resources should not be a feature of the local government finance system.

Measures should be put in place to ensure that local authorities are adequately compensated for the costs of schools transferring to academies; in some cases debt burden remains as a legacy.

The Government should review the operation of damping in the current system.

The system should be changed to allow more of the funds that are generated locally to be retained locally.

Council tax income should be included when calculating the reductions in Revenue Support Grant required for each authority, thus equalising the savings challenge requirement for all authority classes and not favouring any.

Central government should extend the remit and scale of Community Budget pilots through devolution from existing Whitehall budgets, leading to comprehensive place based settlements.

Further complexity has been added to the funding system by the introduction of the Education Funding Authority (EFA). The recent funding review has introduced a more rigid funding system allowing less local flexibility.

If councils are to reduce their reliance upon government grant, it is essential that they receive greater powers that enable them to raise, retain and spend money locally.

The range of services provided by fire authorities is not sufficiently recognised by the funding system.

When transferring responsibilities from central government to local government, it is important to ensure that the function is appropriately resourced; the transfer of responsibility for the Council Tax Support Scheme is an example where this has not happened.

Council tax

The erosion of council tax resource equalisation should be addressed.

Thought needs to be given as to how to factor into the funding formula the differences between councils in terms of current council tax levels, efficiency and balance sheet strength.

Precepting by stand alone fire authorities should be taken out of the council tax debate.

Stand alone fire services' funding should sit outside the new system for the localisation of council tax support.

The issue of council tax equalisation needs to be addressed as it is one of the biggest single barriers to structural change in fire and rescue services.

The council tax resource equalisation amount should be reset to its 2013/14 level and it should be protected in the same way that the council tax freeze grant is protected.

Consideration should be given to introducing new property value bands into the system, which would avoid the need for a wholescale revaluation exercise.

The level of council tax support should be protected in cash terms for individual councils; currently, this funding is being cut annually within the Settlement Funding Assessment.

Council tax freeze grant needs to be reviewed as it currently rewards those more affluent authorities who have a higher tax base and higher council tax level, than those with the greatest needs.

Council tax capping needs to be relaxed or special provisions should be recognised for low tax base/rate authorities.

Linking the trigger point for referenda to inflation should be considered.

Students should retain their exemption from council tax.

Business rates

Authorities should be provided with clear guidance on what will happen during the reset.

The reset of business rates should incorporate a new (or updated) needs-based assessment to determine Settlement Funding Assessment's (SFA) and funding baselines.

The calculation of business rates baselines at reset should not penalise those authorities that have grown at a faster rate than others.

Any reset of the business rate retention scheme should include the introduction of an element to recognise the expected increase in population as a result of delivering a growth deal.

Pooling for business rates should be better incentivised to encourage growth through joint working.

Safety net protection should be reviewed for business rate pools.

The overall business rates income should be allowed to fluctuate with the economic cycle, thereby abolishing Retail Price Index-linked annual increases.

The pre-2008 availability of relief from empty property rates (100 per cent for industrial properties, three month grace period followed by 50 per cent for all others) should be reinstated.

Revaluations should be carried out annually with a one year antecedent valuation date.

There should be no reset and the levy should be decreased.

The business rate retention system should not be applied to the fire service as it has little influence over business rate generation.

More collaboration and information is needed from the Valuation Office - revaluations should be scheduled as soon as possible with regular updates to prevent big changes at revaluation. Given the long-term delays currently being experienced, authorities should be afforded some additional protection for the impact of late large-scale revaluations.

The potential loss of revenue due to unplanned shutdowns of nuclear power stations means that they should be treated as a special case in terms of business rates, which would protect councils from financial instability.

Councils should have a greater share of business rates and more financial freedoms with the risk and rewards this creates, thus encouraging councils to pay greater attention to helping local business.

The £120 million hold back for business rates safety net should be abolished with a different approach taken to manage the risk associated with a higher level of appeals and reduced business rate income.

Councils should have control over the setting of business rates. Flexibility on the setting of business rates on a case-by-case basis would allow authorities to incentivise pro-growth behaviour such as job creation, re-investment and the up skilling of the workforce.

The government should use the RSG mechanism to incrementally reduce the disparity of funding between urban and rural areas from 50 per cent to 40 per cent by 2020. This could be done by reducing the weighting for population density in the ECPS block and by allowing damping to unwind.

Financial management
A five year settlement period should be introduced to provide more certainty over future planning. There is a need for an increased transparency and early availability of information in any given year's settlement to enable local government to plan prudently and effectively.

Government should adopt a more strategic approach to the co-ordination of grant funding streams at the national level.

Government should issue all grants as 'Section 31' grants, ie non-ring fenced, to allow for greater local decision-making.

Fees and charges and other sources of income
Greater clarity is required as to what services can be charged for and where the line is between statutory and discretionary services. Further consideration should be given to where it may be appropriate to charge for discretionary services.

Restrictions should be removed on local authorities making a profit.

New taxes, such as tourism tax, should be explored as an additional source of income for local authorities.

Capital
Capital financing regulations should be reformed to remove the restrictions around the use of capital receipts.

A greater proportion of capital funding should be announced and released up front to help with the planning and delivery of growth.

Capital funding requirements, across areas, should be properly assessed and included in future funding requirements.

Capital funding for fire authorities should revert to a funding formula rather than the current bidding process. Bidding is not appropriate for monies that all fire authorities need to share for investment in buildings and equipment such as fire engines.

The current requirements relating to the sale of assets that require councils to demonstrate best value in terms of capital receipt should be reviewed. There may be occasions when the current rules inhibit a joined up approach to developments in circumstances where one party may not achieve best value, but the overall project may deliver enhanced benefits across the whole public sector.

The Public Works Loan Board should reinstitute the power for councils to transfer debt between each other to facilitate the pooling of debt and create greater local flexibility to manage resources.

The Minimum Revenue Provision (MRP) regulations are too onerous and often make it very difficult for local authorities to operate in a more commercial sense - MRP mechanisms need to be revised so that local authorities can promote more capital investment schemes.

There appears to be a greater reliance on short and very specific funding bids for capital grants; often involving highly bureaucratic processes. This short term fragmented practise reduces the ability for local areas to develop longer term solutions and be more aspirational.

Housing
Councils should be allowed to trade their borrowing limits between each other so that borrowing capacity is available to those areas that are willing and able to build.

To promote councils building more houses, the Housing Revenue Account should be taken out of the definition of PSBR, as is the case in many OECD countries.

The ability of local councils to enter into local authority mortgage schemes, to increase home ownership at the lower end of the market, should be extended.

Councils should receive NHB regardless of whether they have initially refused planning permission, to help to mitigate the high levels of costs they incur in relation to growth.

A ten-year funding commitment from the Homes and Communities Agency is needed to provide greater financial certainty enabling delivery of new homes, and driving value for money.

The Government should remove the borrowing cap and enable council's borrowing to be entirely linked to the affordability of such an approach within its business planning framework.

HCA capital funding should not be refused simply because affordable rents will not be charged.

The Government rules around state aid on local authority led housing projects should be reviewed.

The Treasury should clarify current rules which act as a disincentive to councils which have closed their HRA from reinvesting in housing.

Councils should have discretionary local powers to tax undeveloped sites.

Right to Buy should be ended or as a minimum there should be a reduction in HM Treasury top-slice to 15 percent.

100 per cent of Right to Buy receipts should be retained for investment in housing.

Rules which prevent councils from using HRA funds more widely should be changed to allow them to fund mixed tenure schemes and rent to buy schemes in which households can 'staircase' both into and out of full ownership.

'Housing and development grant' should be re-examined as a potential incentive mechanism for improving housing supply.

In order to prevent an increase in and enforced homelessness a discretionary housing payments specific grants scheme needs to continue at the current level.

Growth

There should be meaningful devolution of significant levels of un-ringfenced spending on areas relating to economic developments.

There should be a comprehensive and transparent analysis of how the spending review and budget decisions in the next parliament support economic rebalancing between regions.

Fiscal devolution will further enable areas to work closely with their business leaders to understand which investments are most likely to support business start-up, relocation and growth, and stimulate inward investment, private sector spending and jobs.

Devolution should not move at the pace of the slowest. A differential approach will enable the most advanced places to go further faster.

A wider range of taxes should be brought within the scope of Tax Increment Financing (TIF) to improve potential for greater future funding certainty and to make TIF more attractive as a means of funding long term projects.

To enable county economies to flourish further, they need to be given the same tools to boost economic growth as those granted to cities.

The Government should enable councils to take a balanced risk approach to infrastructure investment; balancing economic returns with social and regeneration benefits.

Councils should have greater control over skills funding and commissioning to ensure a better match between training and local employer needs.

There is a strong case for greater funding to be devolved to councils particularly from departments such as Business Innovation and Skills (BIS).

Ability of local authorities to invest in the local infrastructure has been constrained by the introduction of higher borrowing rates by the Public Works Loan Board (PWLB). Reducing rates to previous levels will allow the local authorities to spend more on infrastructure locally and less on interest payments to Government.

County councils have a greater influence on local growth through the provision of supporting infrastructure, and at least some CIL contributions could be received by county councils.

Affordable health and social care

Currently NHS capital receipts are centralised which makes joint local decision-making, pooling of budgets and the generation of joint savings more difficult.

The NHS tariff systems should be reviewed and reformed to incentivise prevention and align financial incentives between providers and commissioners. This could reward achievement for outcomes rather than activity.

Under the new burdens doctrine, councils are meant to be fully compensated by government for the increased cost arising from new duties. There is a need to draw attention to the funding shortfall facing adult social care as a result of new duties arising from the Care Act.

Additional financial support should be made available to authorities who are unexpectedly, adversely impacted by the Care Act.

Best outcomes in health and social care will be achieved through a single commission body holding a pooled budget.

If it were possible to combine budgets more effectively between multiple public sector organisations such as health, local government, DWP and police, it would be possible to find greater efficiencies through joint working. This cannot be done piecemeal but needs serious public service redesign which would need to be done on a national scale.

There should be increased funding allocated to those local authorities that have had historically low public health expenditure to allow them to increase their commitment to the level of at least the average per capita.

Welfare to work

Welfare to work schemes such as the Work Programme should be commissioned locally on a risk/reward basis for those with the most complex needs, and local partners should have greater influence and perhaps be co-commissioners for other cohorts.

Councils should be allowed to pay housing benefit direct to private landlords to reduce the risk of homelessness (with the appropriate regulations to prevent abuse of the system by landlords).

DWP funding for the social fund is to be withdrawn from 2015. There is a need to clarify that funding will be provided within the overall grant settlement for this activity, which aims to support those most affected and at risk.

Prevention

Greater attention should be given to outcome based budgeting in order to take account of preventative work and early interventions and promote partnership work between services.

Funding of early years currently incentivises establishment capacity over quality or location and this should be changed.

Greater flexibility in local use of funding such as additional allocations for pupil premium, with opportunities to grow/match funding earmarked for prevention, should be explored.

Enable local authorities to use dedicated schools grant to support vulnerable children and families.

Notes

Independent Commission on Local Government Finance

3 Robert Street
London
WC2N 6RL

T +44 (0)20 7543 5600
E enquiries@localfinancecommission.org
W www.localfinancecommission.org

The Commission on Local Government finance was established by the Local Government Association (LGA), the national voice of local government, and the Chartered Institute for Public Finance and Accountancy (CIPFA), the professional body for public finance professionals.

City of Westminster

Westminster Scrutiny Commission

Date:	18th November 2014
Classification:	General Release
Title:	Evaluation of Policy & Scrutiny
Report of:	Policy & Scrutiny Manager
Cabinet Member Portfolio	Leader of the Council
Wards Involved:	All
Policy Context:	Better City Better Lives
Report Author and Contact Details:	**Mark Ewbank x2636** **mewbank@westminster.gov.uk**

1. Executive Summary

In 2012, the Westminster Scrutiny Commission instituted a transformation of the Policy & Scrutiny function. This short report outlines some of the results of the changes and outlines some potential areas for further development. At this stage, this report is for information.

2. Key Matters for the Committee's Consideration

This report is primarily for information, but Members may like to consider the following when considering the paper:

- What further steps can be taken to evaluate the changes made to Policy & Scrutiny (i.e. asking non-executive Members of the Council for their view)?
- Are there any further developments which could be made to the function to ensure that Policy & Scrutiny is as effective as it can be?
- In consultation with non-executive Members, could the Policy & Scrutiny function benefit from a further 'whole-reform', or realignment?

3. Background

1.1 At the 19th November 2011 meeting of the Westminster Scrutiny Commission, officers were tasked with preparing a report on best practice relating to the statutory overview and scrutiny function of local authorities. At the 20th March 2012 meeting of the Commission, a report was presented entitled '*Enhancing the Effectiveness of Policy and Scrutiny*.' Within the report a series of recommendations were made relating to the organisation of Policy & Scrutiny at Westminster.

1.2 At the same meeting, Members of the Commission agreed to move forward with changing the function and, at the Chairman's request, officers prepared a short consultation on the recommendations put forward in the report. The consultation received a number of responses from Councillors, officers, providers, stakeholders and members of the public in Westminster.

1.3 A consultation report was published shortly afterwards, which contained a series of suggestions based on consultation responses. The consultation responses on the recommendations were brought into a report presented to the General Purposes Committee on the 10th May and subsequently this was presented for adoption at Westminster's Annual Council Meeting on 16th May 2012. The Council agreed to the propositions presented in the report.

1.4 As such committees at Westminster met more frequently in fewer committees (whilst maintaining the overall number of meetings) in order to become:

- **more strategic** (for input into the Council's business cycle)
- **more focused** (for specific outcomes),
- **more visible** (promoting their work)
- **more accountable** (calculating the 'return-on-investment').

1.5 As part of the rolling evaluation of the P&S changes, a survey was run with the Senior Leadership Team of the council and all external witnesses who appeared before committees in previous financial year. In September 2013 the report outlined the following results:

- 85% of senior officers considered that P&S committees had become more strategic as a result of changes.

- 77% of senior officers considered that reducing Agenda improved the operation and outcomes of P&S.

- 77% of senior officers considered that routine sets of recommendations from Members were useful in providing depth and steer.

- 62% of senior officers agreed that fewer Committees but more frequent meetings had been a positive step.

- 46% of senior officers agreed that P&S Committees refusing ‘update papers’ has improved the function.

- 88% of external, expert witnesses felt that Members of the Committee were receptive to the issues that they raised.

- 82% of external, expert witnesses found the discussions helpful for their own professional needs and / or organisations.

- 82% of external, expert witnesses would attend a Committee again to give evidence, should they be invited by Members.

- 68% of external, expert, external witnesses considered that the recommendations and / or conclusions made by the Committee reflected the balance of evidence provided at the session.

- 53% of external, expert witnesses thought that they positively influenced the discussions of the Committee.

2. Potential areas for improvement

2.1 Whilst it could be argued that the Policy & Scrutiny reforms has led to a more focused, strategic, public and accountable overview and scrutiny function, there are still areas that the Commission may consider would improve the function:

2.2 **Increasing the strategic role of Policy & Scrutiny**

2.3 Whilst the Committees are increasingly involved in ‘**pre-scrutiny’** of decisions, such as the Council’s *Sustainability Strategy*, *Cycling Strategy* and the *Highways and Transportation Contract* re-let et al., there is scope for further work in this area. In acting in this advisory role, P&S Committee Members have an active input in policy development before a formal recommendation is put to the Cabinet Member.

2.4 Further to this, whilst Committees are involved in **policy review** through the accountability mechanism of Cabinet Member Q&A and ad-hoc Agenda items on current policies of the Council, P&S Committees may wish to look to reviewing more of the Council’s current policies (i.e. such as flagship programmes) to examine achievements and outcomes for local residents.

2.5 **Increasing the focus of Policy & Scrutiny**

2.6 Committees have been increasingly successful in focusing on one or two major items per meeting; in order to conduct a more rigorous 'deep dive' examination into issues under consideration. Mechanisms such as **'urgency' meetings** have diverted potential larger items into different settings to ensure that no item is missed throughout the municipal year. Other committees may choose to delegate similar items to task groups supported in a more informal, yet more in-depth way.

2.7 **Increasing the visibility of Policy & Scrutiny**

2.8 Committees have ensured that where an item has a great deal of public interest in the Westminster community, there has been a plan to publicise the work undertaken to broaden access to the Committee's work. Recent coverage on the BBC and in the Evening Standard has ensured that Westminster's Policy & Scrutiny function remains one of the most visible in London and across the UK. The Commission may wish to further consider whether to hold public meetings when scrutinising external partners and providers in order to enhance the role of the function as a tool of accountability.

2.9 **Increasing the accountability of Policy & Scrutiny**

2.10 Westminster has also been at the forefront of 'return on investment' scrutiny; ensuring investigation and recommendations are strategic by aligning with the current financial climate. Recent task group investigations into violence against sex workers and assessing the use of non-traditional drugs have been conducted with the assistance of the Centre for Public Scrutiny and their 'return on investment' scrutiny model.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Mark Ewbank x2636
mewbank@westminster.gov.uk

BACKGROUND PAPERS