Government response to the Communities and Local Government Select Committee Report: Devolution for England - the case for local government

Presented to Parliament
by the Secretary of State for Communities and Local Government
by Command of Her Majesty

February 2015

Cm 8998

Government response to the Communities and Local Government Select Committee Report: Devolution for England - the case for local government

Presented to Parliament
by the Secretary of State for Communities and Local Government
by Command of Her Majesty

February 2015

Cm 8998

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at ContactUs@communities.gsi.gov.uk

Print ISBN 9781474115797
Web ISBN 9781474115803

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 24021501 02/15

Printed on paper containing 75% recycled fibre content minimum

Government response to the Communities and Local Government Select Committee Report: Devolution for England: the case for local government

Introduction

The Communities and Local Government Select Committee conducted an inquiry into whether and how fiscal and financial powers could be devolved to London and English cities, and to local authorities more widely. Following the submission of written evidence and a number of evidence sessions, the Committee published its report on 9 July 2014.

Committee Conclusions and Recommendations

The Committee made 51 recommendations. Set out below are the Committee's recommendations from the report and the Government's response to each. [Paragraph references are to the original report.]

Recommendation 1

The power to raise, retain and spend money locally—fiscal devolution—is back on the political agenda. Local government wants more of it. The UK Government, in promoting devolution, localism and spending decentralisation, has shown that we may have passed the high water mark of Whitehall control. But increased and increasing fiscal devolution to Scotland, Wales and Northern Ireland—and foreign comparisons—highlight how much England is still firmly in the fiscal grip of central Government. There is unlikely to be an English Parliament or regional assemblies, so devolution based on existing structures or groups of authorities is the only way forward. With a UK general election less than 10 months away, policy makers must listen to calls for fiscal devolution to local authorities in England and consider their response. (Paragraph 15)

The Government welcomes this report's contribution to the ongoing public debate on the scope for devolution and decentralisation within England.

In December 2014 the Government published Command Paper 8969 'The Implications of Devolution for England' https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387598/implications_of_devolution_for_england_accessible.pdf which sets out the Government's achievements to date on decentralisation and localism in England, and options for further devolution and decentralisation. This provides the context for the Government's response to this Select Committee report.

Alongside devolution of powers to Scotland, Wales and Northern Ireland, there has been a significant shift in where power resides in England. The Coalition: Our Programme for Government committed to a "fundamental shift of power from Westminster to people" and to "end the era of top down government by giving new powers to local councils, communities, neighbourhoods and individuals". The UK's prosperity depends on local factors including land use and transport connections as well as the availability of public goods and services. Devolving and decentralising power and enabling local people to make decisions in these areas will create the conditions for sustainable growth, better public services and a stronger society.

The Government's approach has been to introduce policies, given effect by legislative change where necessary, that increase the powers of local institutions, enhance local accountability and transparency, reduce barriers that prevented people doing things for themselves and reduce bureaucratic and regulatory burdens. This has avoided a 'one size fits all' approach and allowed communities to respond to their different challenges to meet local needs.

Since 2010 the Government has undertaken the most radical programme of devolution within England in a generation and leaders across the country have risen to that challenge. There are now five combined authorities, 15 directly elected local authority mayors, a Metro Mayor in London, and plans for a Metro Mayor to be elected for Greater Manchester in 2017. The Regional Growth Fund, Growth Deals and Growing Places Fund have been made available to all local areas, rural and urban, providing the opportunity for bespoke deals and packages to address specific issues and opportunities and helping transfer decision-making across the country to local leaders and partnerships.

We moved fast to make significant changes including abolishing the whole tier of unelected regional government - Government Offices for the Regions, Regional Development Agencies and Regional Assemblies - and have ended prescriptive central controls and performance management. We have removed centrally-imposed regional policy in favour of self-defined Local Enterprise Partnerships based on functional economic areas, which better join up the public and private sectors to drive growth.

Partners across the functional economic area need to work together to deliver prioritised growth interventions. Government decentralisation has not just focused on spending. We have given local areas a share of increases in the local tax base – where local areas have delivered more homes or an increase in commercial property – through the New Homes Bonus and business rate retention. We have introduced substantial bespoke agreements or Deals with individual areas to enable them to invest and to share in increased growth.

The Government welcomes the Committee's support for basing decentralisation on existing structures and groups of authorities, rather than on top down reform of structures. We consider that locally-led partnerships, based on local decisions about functional economic areas, and bringing together business and local authority leaders, provide a clear route forward for driving local growth and bringing together key local decision-makers. Local areas are best placed to drive forward decisions about joint working and stronger partnership, and when to take further steps including asking Government to establish combined authorities.

The Government has adopted the principle that power should be decentralised to the lowest appropriate level, down to councils, neighbourhoods and individuals, and services must be responsive to the people they serve – held to account by citizens and their elected representatives. We have given powers directly to communities, for example to develop neighbourhood plans and to take over assets, and have supported places to develop neighbourhood community budgets through 'Our Place'.

The case for fiscal devolution

Recommendation 2

English local authorities, when compared with their counterparts in other developed nations, have limited control over local taxation and, as a consequence, rely, by comparison, disproportionately on central Government funding. Given the level of UK central Government control over local spending and over local taxation in England compared to other developed countries, it is entirely reasonable for local areas in England to aspire to greater local control over the money raised from their areas and spent locally. The key question is what to do about this aspiration: specifically, whether England should put in place a programme of fiscal devolution to local authorities and, if so, how it should go about the task. (Paragraph 18)

Devolution to Scotland and Wales

Recommendation 3

The UK Government is in the process of granting substantial fiscal devolution to Scotland and Wales. Ministers have therefore accepted the principle of fiscal devolution from Whitehall. This prompts the question, if such powers are considered justified and workable in Scotland and Wales, why not in England? Greater Manchester and Greater Birmingham each have a larger GVA [Gross Value Added] than Wales. London has a larger GVA than Scotland, Wales and Northern Ireland combined. When the changes for Scotland and Wales take place, England's local authorities will be left in an increasingly anomalous position, with a little more responsibility for spending than they have now but much less control over taxation than the Scottish Parliament and the Welsh Assembly. (Paragraph 21)

This Government has delivered a substantial programme of devolution and decentralisation within England.

We have supported an approach which creates a strong link between the action local leaders take to build homes and create jobs and the rewards local areas receive through business rate retention and the New Homes Bonus. The Local Government Finance Act 2012 enables authorities to benefit from growth by allowing them to keep a share of business rates and the growth on those revenues. Under the Business Rates Retention scheme £11 billion is now retained locally rather than redistributed via central government. The Act also enabled local authorities to undertake Tax Increment Finance through New Development Deals - borrowing against future business rates revenues to partly or wholly fund the provision of infrastructure. Government also gives local councils a share of the increases in council tax revenues where areas deliver more homes, through the New Homes Bonus. As a result of these changes, 70 per cent of council income is now raised locally.

We have also taken more ambitious steps through City Deals, Growth Deals and recent devolution deals to further incentivise local growth. This includes the Earn Back model, a long-term transport investment fund that rewards Greater Manchester for demonstrating what economic benefits and impacts made under the scheme have been; the Leeds Growth Deal which provides for long term transport infrastructure investment dependent on the economic impact of local investments; and agreement on Gain Share in Greater Cambridge which will link long term investment plans to delivery of sustained growth in and around Cambridge.

New Development Deals were agreed as part of Wave 1 City Deals in July 2012 in Newcastle (£92 million), Nottingham (£8 million) and Sheffield (£33 million), allowing investment supported by long term business rate retention.

The Government has also established 24 Enterprise Zones where the Local Enterprise Partnership can retain 100% of business rates for twenty five years; agreed 100% business rate retention on five enterprise areas in the West of England Wave 1 City Deal; and in the Vauxhall Nine Elms development area has committed to allow the Greater London Authority (GLA) to undertake up to £1 billion borrowing backed by business rates to support the Northern Line extension.

This Government has also increased councils' flexibility with the removal of ring fencing from many local government grants. This gives them freedom over how they spend the money they receive, and allows them to work with their residents to decide how best to spend it on local priorities. Housing Revenue Account reforms have given councils resources, incentives and flexibility to manage their own housing stock for the long-term and to drive up quality and efficiency.

Spending decentralisation and fiscal devolution

Recommendation 4

The process of devolution, if it is to be meaningful and effective, must include more than decentralised funding streams spent in local authority areas. Fiscal devolution provides enhanced local autonomy. Without it, local authorities will be agencies of central Government, focused in large measure on the requirements set by the funder, central Government, and acting within spending constraints set by Whitehall. That said, fiscal devolution and decentralisation, through place-based funding, are mutually reinforcing policies. Taken together they would give local areas greater control over spending and allow policies on growth and public service reform to complement each other. (Paragraph 25)

We have supported an approach which creates a strong link between the action local leaders take to build homes and create jobs, increasing the local tax base, and the rewards local areas receive through business rate retention and the New Homes Bonus.

Alongside this, Growth Deals take at least £12 billion from 2015/16 to 2020/21 from Central Government Departments and make it available to Local Enterprise Partnerships. The first £6 billion of local projects to have been agreed under the first wave of Growth Deals were announced on 7 July – rewarding those with a strong commitment to local leadership.

There is a difference between policies which increase the burden of municipal taxation, and those which allows councils to share from the proceeds of enterprise and economic growth. The first ultimately hinders economic growth, the second encourages it.

Fiscal devolution and economic growth

Recommendation 5

We conclude that there is evidence of at least an indirect connection between fiscal devolution and growth. There is also evidence that fiscal devolution—as part of a package of wider decentralisation—would encourage greater economic growth across England. The Government has, through its own business rates retention scheme, accepted the logic behind this. Putting a wider range of tax and borrowing powers into the hands of local politicians simply extends this logic. London, already in the vanguard of UK growth, would not be pressing for devolution if it was not to its advantage. Placing power in the hands of other areas, too, would provide an opportunity to contribute to a more balanced economy. Cities and their wider regions have the most potential to drive growth. (Paragraph 28)

The Government is always willing to discuss places' proposals as to how cities and counties want to drive forward economic growth. Strong governance and economic decision-making will be at the heart of this.

The Government supports balanced growth that contributes to the overall prosperity of the nation and to deficit reduction. That is why it has shown a firm commitment to growth across the country in recently concluded Growth Deals and devolution deals with Manchester and Sheffield and to investment in the infrastructure and locally driven place-making that can drive growth in cities and elsewhere.

This must include empowering our great cities to create jobs and growth and better compete on the global stage. Cities and their wider functional economic areas are key engines for growth. They are where most people work and most businesses are based. The first round of City Deals with the eight largest cities in England was concluded in July 2012 with 18 further deals agreed with English cities by July 2014. City Deals are bespoke negotiations between Government and local places based on the opportunities of a particular place – with the aim of giving those places the power and funding necessary to drive growth in their areas.

The Chancellor has made clear his commitment to infrastructure investment in connectivity, and to civic leadership for a Northern Powerhouse.

Enhancing democracy

Recommendation 6

Fiscal devolution presents an opportunity to improve accountability, to hold local politicians to account for their successes and failures and, therefore, to improve democracy. By giving politicians outside Westminster the responsibility for raising, as well as spending, money locally, fiscal devolution would bring decisions on how that money is generated and spent much closer to local people—and make those who make such decisions much more visible. This would enhance the standing of local democracy and, by extension, democracy throughout the country. Enhanced local democracy offers the best possibility of a step towards addressing the challenges of the wider democratic deficit caused by the over centralisation of England. (Paragraph 30)

The Government shares the Committee's view that strengthening local democracy and accountability is an important priority and that accountability to local people is of critical importance.

Decentralisation of business rate retention, and introduction of the New Homes Bonus, have helped make clear the strong links between local decisions and the prosperity of local areas – so that local people see the direct impact of investment in jobs and homes in helping fund local services and keep down local council taxes.

We have enhanced local accountability by abolishing central Government's power to cap council tax and replacing this with a system of referendums for excessive council tax increases so that local electorates can take the final decision. We have introduced a legal requirement for local authorities to comply with Part 2 of the Local Government Transparency Code 2014. This will ensure local tax-payers will have the information they need to hold their local authority to account in relation to decisions on tax spending and how services are delivered and will enable local people to participate in local democratic processes. The availability of data can also help secure more efficient and effective local services and open new markets for local business, the voluntary and community sectors, and social enterprises to run services or manage public assets.

We have introduced greater openness and transparency into meetings of local government bodies through the Openness of Local Government Bodies Regulations 2014, allowing members of the public to attend and report the proceedings of their councils' meetings and also access decisions taken by officers acting on behalf of their councils.

It is important that decentralisation should support national objectives of growth and prosperity and work within the framework for deficit reduction. Transparency in local decision-making is part of this. Local government should be clearly accountable for its actions and decisions on local tax levels. There is no public appetite for raising taxes on local residents and businesses, that increase costs to local residents and potentially damage high streets and jobs.

Committing to the principle of fiscal devolution

Recommendation 7

The point has been reached for the Government (and policy makers in other political parties) to make it clear whether they are committed in principle to larger-scale and more comprehensive fiscal devolution in England. We are, and we believe they should be too. (Paragraph 32)

Recommendation 8

With a clear national commitment to the principle of fiscal devolution local authorities working with central government would be able to produce more detail on how such devolution might work in their areas. The Government is rightly concerned about deficit reduction and whether fiscal devolution will have a detrimental effect on the rest of the UK. However, the Government must plan beyond the next few years and the present financial constraints. A common agreement to the principle, combined with a measured approach arranged between local and central Government, including initial devolution to a small

number of areas, should allay those concerns. (Paragraph 33)

The Government is committed to the continued growth of the UK economy and welcomes the Committee's acknowledgement of the importance of deficit reduction. Any changes on fiscal devolution need to be considered in the context of the importance of long term control of public expenditure and tax rates as a proportion of national income.

The Government is committed to a substantial programme of decentralisation and devolution. Funding decentralisation and devolution of responsibility is as important as fiscal devolution. Tailored Deals provide a clear framework for further decentralisation of funding that reflects local priorities, capacities and challenges and that provides the opportunity for all areas to make the case for further decentralisation. The freedoms and flexibilities provided for in recent Deals provide an opportunity to test out further devolution of responsibility and build a practical, evidence-based case for decentralisation, as well as rewarding growth.

Local people and businesses are best placed to understand the strengths and weaknesses of their local economies. Some obstacles to growth may be national or global in character, but many are local and require local knowledge to remove. Similarly, growth opportunities need to be seized at both a national and local level.

Local Enterprise Partnerships have brought together local political and business leaders and given them responsibility for driving local growth. They use their local knowledge to decide the priorities for investment infrastructure, skills and innovation in their area.

The first wave of City Deals was agreed in 2012 and a second wave was launched in October 2013. These included decentralising agreements, passing down more financial control to a local level. For example, £23.8 million of skills funding has been passed down to Sheffield, and West of England was permitted to retain business rates in five Enterprise Areas to enable growth. Government has now agreed Deals with 26 English cities and their wider functional economic areas, as well as one with Glasgow and the Clyde Valley which was agreed earlier in the year.

In July 2014 the Government also announced Growth Deals with all 39 Local Enterprise Partnerships in England– with government commitments totalling over £6 billion and including substantial localisation of infrastructure and skills capital funding. Growth Deals will devolve at least £12 billion from 2015/16 to 2020/21. However, these deals were about more than just funding. Each deal involved bespoke agreements to support local places to drive forward economic opportunities in their areas. From taking on new responsibilities for training and skills, to new approaches in transport and business support, Growth Deals agreed a huge range of policy interventions designed to empower local areas to have more control over local decision making.

Under the devolution deal agreed with Greater Manchester in November, the combined authority and its new elected metro mayor will receive further powers on transport, housing, planning, skills, policing and welfare support, as well as support for business growth and the opportunity to join up health and social care budgets. This will create a powerful devolved administration with strong political leadership that can drive through policy to stimulate economic growth and plan strategically on a regional, national and international level.

A devolution deal was agreed in December with Sheffield to give it greater control over skills, business support, transport and housing.

The Government hopes that these will be the first of many areas to take advantage of the opportunity for greater devolution of powers.

Equalisation and redistribution

Recommendation 9

The new system of local government finance introduced in 2013-14 appears to have broad, but not universal, acceptance among local authorities. It was an improvement on previous arrangements but its operation still causes some concern. Significantly, it recognises the equalisation of needs and resources at the outset but thereafter incentivises local growth and provides some autonomy, albeit with limits on "excessive" gain and untoward loss in any one area. We refer later in this Report to these limits, the precise nature of which should be agreed between central and local government. (Paragraph 40)

Recommendation 10

Through the Business Rates Retention Scheme, England has a system which balances equalisation and incentives for local growth. It provides a useful signpost for further fiscal devolution. First, it was set up on the basis of an assessment of need and resources. Second, there is a period of stability without further equalisation and redistribution, to provide an incentive to local authorities to increase and retain revenue, and, third, it is predicated on periodic re-assessments of needs and resources—the first will be in 2020. For further fiscal devolution local and central Government will need to take the model and develop it to establish an agreed approach. We therefore consider that similar arrangements, incorporating equalisation, should feature in any process of significant fiscal devolution, which we expect a limited number of local authorities to pursue initially. This will ensure a degree of fairness to begin with, balancing needs and resources with incentives to improve the local economy. If fiscal devolution does not include these principles, it could become a system in which the winner takes all. (Paragraph 45)

Recommendation 13

We conclude that for a system of fiscal devolution to balance equalisation and incentives it has to: start with an assessment of need and resources; have a mechanism for reallocating disproportionate tax yield growth; and include periodic reassessments. The operation of the arrangements will be for agreement between local and central government but we recommend that before fiscal devolution take place in an area:

a) the negotiations for the package are carried out on the basis of a current assessment of need—either the 2013-14 assessment or a subsequent reassessment;
b) negotiations take place on the basis of an up-to-date assessment of projected income from the taxes to be devolved up to the next reassessment;

c) the arrangement would operate by offsetting grants and support paid by central Government for local authority control of taxes;

d) the parties agree an excessive rate of increase in the yield of the devolved taxes above which a levy will apply; and

e) the parties acknowledge and agree that a reassessment of need and resources will take place after specified periods. (Paragraph 56)

Recommendation 14

We make no detailed recommendation on the levy beyond that, although it should be part of the arrangements for fiscal devolution, it should only come into operation in exceptional circumstances. It should not be set so low as to stifle dynamic local authorities' attempts to stimulate economic development but should aim to capture windfall taxes. (Paragraph 57)

Recommendation 15

The levy will be derived from taxes devolved to local government. We recommend the levy from disproportionate growth in yield be held in an account by the Government. This should be ring-fenced and, by law, protected for use as a fund to provide a safety net for an area facing a significant and uncontrolled revenue shortfall, but explicitly exclude under-performing authorities. It should also be available to be redistributed to all local authorities. As is the case now, we would expect provision from other funds met from general taxation and disbursed to local authorities also to be available. In addition, specific grants should be targeted at low-growth areas, and local authorities should control how that money is spent. (Paragraph 58)

Any future fiscal decentralisation will be for the next Parliament to decide.

The Committee describes a process similar to the approach taken in introducing business rate retention. It is a potential set of principles which could be applied if fiscal decentralisation were to take place on a larger scale, building on the approach established as part of business rate retention.

Government consulted extensively on business rate retention. A working group of local government officers and other interested parties, and a number of technical sub-groups, discussed the principles of the scheme and the detailed implementation arrangements.

Following extensive consultation with local government, a cap was placed on the levy to ensure that every authority would receive at least 50 pence in every pound of growth above a baseline, in order to ensure a worthwhile incentive for every authority to strive for growth.

Final decisions on the exact level of the limits were based on balancing the potential risks and gains to individual authorities.

Recommendation 11

We do not consider that a putative general uplift in taxes such as income tax and corporation tax would provide a satisfactory redistributive arrangement under fiscal

devolution to areas outside London. First, it is likely to be difficult to identify and quantify. Second, the use of the yield from these taxes will be subject to the Government's competing priorities, including deficit reduction. Third, under current Treasury rules, it would count against the Total Managed Expenditure limit, the control on gross UK spending, and so either the Government would have to raise the limit or offset it with a reduction elsewhere. We conclude that such an approach, on which we received no detailed costings or calculations, is unlikely to command support (Paragraph 47)

We concur with the views of the Committee. We note that all spending from taxes, whether central or local, counts against the Total Managed Expenditure limit.

Recommendation 12

London's stamp duty yield increased by 85% between 2009-10 and 2012-13—dramatically more than any other area, including the Core Cities. By any objective measure, London's relative spending requirements could not have increased by 85% over the same period. Its yield per head of population was also considerably more than elsewhere. If a similar increase in stamp duty yield, or indeed in business rate yield, occurred in future, the question whether a local area was solely responsible for it, or the beneficiary of a windfall due to national economic circumstances, would need to be addressed. In our view there has to be a levy on disproportionate tax yield growth. (Paragraph 49)

The Committee conducted a useful and detailed analysis of trends in stamp duty and the extent to which gains in take from stamp duty could be regarded as a windfall. It concluded that there was a 'substantial windfall element' that was difficult to predict and had little relationship to spending need.

Stamp duty revenues are also volatile – they halved during the recession between 2007-08 and 2008-09.

It is unclear why the Committee recommend devolution of the tax take from stamp duty, given the difficulties identified. (See response to Recommendation 43 below).

Recommendation 16

If more powers were devolved, associated funds would have to be transferred from central Government. In the case, for example of the Work Programme, which will inevitably operate in areas of high need, such transfers will enable further redistribution and achieve a strong match of resources to need. (Paragraph 59)

Work Programme funding is already based on need – since funding follows individuals who are entitled to support and who are helped into work by the Work Programme. Decentralisation of funding would therefore not, on its own, do more to target areas of need.

Recommendation 17

On the reassessment, we recommend that the Government legislate for such an assessment to take place every 10 years. This would ensure the process actually takes

place, and local authorities should be clear from the outset that it is an integral part of the process of fiscal devolution. On the reassessment process, we recommend that it be informed by the advice of an independent body, with responsibility for the assessment of needs and resources and the determination of apportionment between local authorities, but with the Government determining the national totals of resources for England, and with precepts for major capital projects in devolved areas excluded. This would ensure the process was not only fair but seen to be fair. We recommend that the Chair of the independent body be subject to a confirmation hearing with this Committee. (Paragraph 60)

The Government has already set out its intention to reassess needs in 2020, and then every 10 years thereafter.

The Government believes that it is in the best position to carry out the reassessment, since this must take into account the fiscal policies and constraints of the Government of the day.

Recommendation 18

The reassessment should allow local authorities to keep a substantial proportion of the improvement since the previous assessment. It should not reward those areas that have made no effort to grow. We consider that a system incorporating the arrangements we have outlined would be fair and make it sustainable in the medium and long-term. It would prevent any area being automatically advantaged—or disadvantaged—at the outset and instil confidence in those areas that might not be in the first wave of fiscal devolution. (Paragraph 61)

The Government notes the Committee's views. It agrees it is important to incentivise growth in all areas – and not simply in those areas with greater ambition and capacity. We note the comments of Councillor Nick Forbes on behalf of the Core Cities (quoted in paragraph 53 of the Committee's report) that it would be sensible to build in a review process that takes account of wider trends.

Definition of areas for fiscal devolution

Recommendation 19

The first test for areas seeking to assume more control over local property taxes and enhanced borrowing powers is that they are able to demonstrate how their particular unit functions as an economic entity. They may cut across administrative boundaries and are likely to be geographically large in scale. We see merit in starting with an existing model. Combined authorities provide one potential example. But such areas could include and, in some cases already do include, large cities, smaller cities and counties. In that sense fiscal devolution would not be restricted to any one type of area, capital city, Core City, Key City or county or combination. It is potentially appropriate for a range of areas that contributed evidence to this inquiry. (Paragraph 67)

We have always been clear that good governance across the functional economic area is a condition of any further devolution of powers or responsibilities. We have established Local Enterprise Partnerships across functional economic areas. The Government recognises that all places are different and each conversation is bespoke. Establishing a combined authority is one way in which local authorities can collaborate effectively across the administrative boundaries to promote economic growth: five areas covering 32 local authority areas have already adopted this approach. But the Government recognises that establishing a combined authority is not appropriate or necessary everywhere.

We consider that local areas are best placed to take the lead in shaping arrangements for their effective collaboration over a functional economic area. Combined authorities are entirely voluntary, and are just one option. There are many other ways of joint working – including joint committees, as well as pooling of back offices as implemented by the London Tri-Borough initiative.

Recommendation 20

In any consideration of functional economic area, and of those that might "go first" in any process of fiscal devolution, local and central Government should bear in mind the influence of London on the economic performance of those closest to it. Balanced economic growth may not require devolution to multiple areas. Smaller areas with good links to larger devolved areas, for example, might benefit from fiscal devolution without needing similar powers themselves but this should not stop smaller areas acquiring fiscal devolution if it is appropriate and they can satisfy the necessary conditions. (Paragraph 69)

The Government notes the Committee's comments. The Government supports balanced growth, across the country, and has concluded bespoke agreements outside London for example with Greater Manchester, Leeds, West of England, Greater Cambridge, Thames Valley Berkshire and Greater Brighton to provide long term financial incentives for investment in growth.

Criteria for securing fiscal devolution

Recommendation 21

We conclude that an authority or group of local authorities seeking fiscal devolution must be able to demonstrate: fiscal competence, which would include the prudent management of borrowing; a capacity for strategic planning and decision-making leading to economic growth; clear plans as to what they would do with their enhanced powers, including how they would cope with an unplanned and significant change in forecast revenue; and, importantly, an appetite to make them work. Given the Government would test whether any further transfer of powers supported deficit reduction, local authorities will need firm, costed proposals. (Paragraph 71)

Any further proposals for fiscal decentralisation would, as the Committee acknowledges, need to be demonstrably robust. We have always been clear that good governance across the functional economic area is a condition of any further devolution of powers or responsibilities.

Governance and accountability

Recommendation 22

We wish to ensure fiscal devolution does not stall due to ongoing discussions about

governance. But we are clear that there must be a requirement on local authorities seeking fiscal devolution to demonstrate a commitment and an ability to deliver on the principles of openness, public accountability and scrutiny, which should underpin all decentralised governance arrangements. No single model of governance had a monopoly on these attributes, however. In the combined authority model, members are drawn from the same tier of governance and have an equal stake in it. Any decision on governance should ideally be made locally. If the Government legislates to enable combined authorities to introduce directly elected mayors, local authorities must consult local people on such a change in a referendum. (Paragraph 77)

The Government notes the Committee's recommendations. The Government recognises that all places are different and each conversation is bespoke.

We support openness, public accountability and scrutiny in all local authorities. The Government believes that in principle all data held and managed by local authorities should be made available to local people unless there are specific sensitivities to doing so (eg protecting vulnerable people). On 31 October 2014, it became a legal requirement for local authorities to comply with Part 2 of the Local Government Transparency Code 2014. The Code is a tool to embed transparency in local authorities and sets out the minimum data that local authorities should be publishing, the frequency it should be published and how it should be published. This will help put more control over local services and assets in the hands of local people and make it easier for them to participate in local democratic processes and decision making.

The Government intends to legislate to enable mayors to be elected covering a geographical area larger than an individual local authority. Decisions to establish a combined authority or to introduce a directly elected mayor covering the area of any authority are not required to be voted on in a referendum. Local authorities have powers under the Local Government Act 2003 to hold a local referendum on a local issue if they wish.

Redistribution within devolved areas

Recommendation 23

We consider that local authorities putting forward proposals for fiscal devolution should be able to show equitable and fair arrangements for the disbursement of tax yields within the devolved area and, similarly, for the sharing of the proceeds of growth generated by fiscal devolution. In addition, any area seeking devolution will have to have in place transparent governance procedures for redistributing revenues within its boundaries. (Paragraph 79)

We do not agree with the Committee's recommendation. We consider that spending priorities and detailed local governance arrangements should be a matter for robust local decision-making and accountability and should not be subject to central government approval. It is important that local areas are empowered to prioritise in the wider interests of the area.

Local referendums

Recommendation 24

We see no compelling reason for a referendum on fiscal devolution. (Paragraph 81)

We note the Committee's views.

The speed and spread of fiscal devolution

Recommendation 25

We conclude that in the short-term at least fiscal devolution encompassing a range of taxes and enhanced borrowing powers is likely to be implemented successfully by a small group of local authorities, particularly those that have already secured decentralisation packages or shown a strong interest in fiscal devolution, such as London and some Core Cities. This would be nothing new: local government in England has for a long time been structured asymmetrically and developed at different speeds. An incremental approach has more chance of gaining acceptance from the Treasury, which has a tendency to be cautious on fiscal matters. It would also allow those who want to make progress to move forward faster. (Paragraph 84)

A framework for devolution

Recommendation 26

While we are clear that the decision whether or not to seek fiscal devolution must rest with local authorities, the Government has a crucial role in facilitating the development of the arrangements, not least in respect of the redistribution considerations discussed earlier. Ministers should, through negotiation with local authorities, expand the range of powers available to all levels of local government as part of a framework that ultimately includes fiscal devolution. As part of a commitment to create balanced opportunities for growth, the Government should in this framework spell out the range of powers that would be available to different levels of local government. For large and small cities and counties a framework would provide an incentive to make plans for enhanced collaboration and, if they wished, to pursue more meaningful, fiscal devolution in the future. The framework should set out what powers could be available to local authorities over the next 10 years. (Paragraph 88)

See the Government's response to Recommendations 8 and 13.

Recommendation 27

We envisage that the framework as well as setting out a range of devolutionary powers would contain terms and conditions that the local authorities seeking substantial fiscal powers would have to meet. These include an agreed approach to equalisation and redistribution, and being able to demonstrate that the devolved area functions as an economic entity, has a strategic approach to planning and delivery and includes good governance. (Paragraph 89)

See the Government's response to Recommendations 19 to 23.

Enhanced powers for individual authorities

Recommendation 28

For all local authorities, the framework should make provision for local control over spending on a wider range of services and for them to expand or change the range of services decentralised over time. This arrangement would reassure those areas not wishing to proceed with substantial fiscal devolution that tailored powers—in particular, over how money was spent locally—would be available. Decentralised powers, such as the Work Programme, should be accompanied by an appropriate amount of decentralised spending to fund such initiatives. (Paragraph 91)

See the Government's response to Recommendation 8.

Recommendation 29

Any process of decentralisation that links to budgets allocated to places rather than policies will require further changes in the attitude and organisation of central Government. Its structures need to mirror more readily those being developed in local government, so that budgets can be developed based on the spending priorities of local people, not national Departments. The framework needs to be able to assist individual local authorities which are primarily seeking decentralisation of spending programmes such as the Work Programme with, if necessary, an option for limited fiscal devolution allowing the authority to raise low-yield local taxes, such as on landfill or tourism. (Paragraph 93)

The Government fully supports locally-driven public service transformation which focuses round the needs of the customer and brings together separate strands of service provision such as health and social care.

Last April, the Government asked Sir Derek Myers and Pat Ritchie to co-chair an independent panel to advise on how to increase the scale of local service transformation. Its report, 'Bolder, Braver and Better: why we need local deals to save public services', published in November 2014, called for three fundamental changes: that local and central government use the person-centred approach of the Troubled Families programme to design services for groups and individuals with multiple and complex needs; more easily accessible and more flexible up-front funding for the up-front costs of transformation; radical improvements in how data and technology are used to provide smarter services. The report provides a blueprint for local public services. The Government welcomed the report in the Autumn Statement and will reply in detail before budget 2015

We need to work together to innovate to provide public services which are driven by and responsive to the needs of individuals.

One example of this is the £3.8 billion Better Care Fund to deliver faster and deeper integration of health and social care. This has great potential (building on the £1.1 billion NHS transfer by 2014/15) to provide increased sustainability across the social care system. Local authorities and

Clinical Commissioning Groups have come together to develop joint plans on how they will spend the Better Care Fund on social care and health.

Through support for community budgets and the Public Service Transformation Network, we have supported places to develop and test new joined up models of service delivery that deliver better outcomes for local people.

The Public Service Transformation Network, announced by the Chancellor in Budget 2013 brings together staff from seven Government departments to work with places who are developing and implementing a whole place approach to local public services, building on the learning from community budgets pilots in Greater Manchester, Cheshire West and Cheshire, Essex and Tri-borough in London.

These pilots showed that better outcomes and savings can be achieved if services are co-designed by local and central partners and delivered in a more joined up way around the needs of people that use them, shifting funding from meeting demand to prevention and early intervention. The evidence from the pilots indicated potential savings of £800 million achieved over 5 years in these four places and the potential to achieve savings of over £9 billion if the approach was extended nationwide. The four pilots are now implementing their business plans.

The Transformation Network has built on the successful approach used with whole place community budget pilots by partnering more places with civil servants, ensuring the right skills and expertise are matched to local priorities. For the past year it has been working with 36 council areas, offering 'hands-on assistance and input. Support and technical expertise includes service redesign, customer journey mapping and cost benefit analysis of new joined up delivery models designed around the needs of people using the service. For example, Department for Work and Pensions officials are working across London to co-design employment support, Home Office officials working with Surrey on joining up emergency services, Department for Health and Ministry of Justice officials in Manchester, and Treasury analysts in Stockport.
The Government has brought together the Cities and Local Growth team – combining civil servants and Ministers from the Cabinet Office, the Department for Communities and Local Government, and from Business, Innovation and Skills – to work across Government to break down barriers to local growth and to decentralise investment spending.

Recently concluded Growth Deals and devolution deals have provided a framework for innovation, breaking down traditional barriers between Departments and between central and local government.

They have brought together capital funding and enabled investment in projects with multiple benefits for transport, housing and jobs.

As an example of service reform, through the freedoms and flexibilities provided for in the Growth Deals process, the Government committed to the joint design of four mental health and employment integration trailblazers, to inform future national and local support for people with mental health conditions seeking work. The trailblazers will test support to boost employment and clinical outcomes for people with mental health conditions, as well as testing better delivery models.

This initiative will form part of a national pilot building on the first phase of Department for Work and Pensions and Department of Health's scoping trials. The Department for Communities and Local Government will provide up to £7m in 2015/2016 to support the design and delivery of the trailblazers, subject to satisfactory business cases.

The devolution agreement reached with Greater Manchester in November 2014 devolves a number of powers and responsibilities.

This includes commitments by central government to work with the Greater Manchester combined authority to deliver an integrated business support service, devolving activities that have previously been managed centrally, to support local priorities. It also includes commitments for central government to work with the combined authority to restructure further education provision and adult skills around local priorities.

The devolution agreement reached with Sheffield in December 2014 similarly includes commitments to central-local collaboration on business support, adult skills, apprenticeship grant, careers advice, bus services and disposal of public sector assets.

Enhancing the role of collaborating authorities

Recommendation 30

We recommend that, as part of any framework for devolution of further powers to all local authorities, including fiscal devolution initially to a limited number, the Government enhance the powers available to combined authorities. This would align their powers more closely with those available to the Greater London Authority, give them a greater strategic role and enable them to prepare, if they wish, for more significant fiscal devolution in the future. These enhancements would include: control over place-based budgets; powers to borrow for non-transport purposes, to become precepting authorities and to finance investment based upon the proceeds of GVA growth; and strategic housing and planning responsibilities, including the power to oversee local authorities' duty to co-operate. (Paragraph 97)

Recommendation 31

We recommend that the Government bring forward as soon as possible its planned legislative reform order, to allow authorities that do not have contiguous boundaries to join combined authorities. Similarly, Government should bring forward legislation, to allow a district or groups of districts that form part of a locally agreed functional economic area to have full voting rights. The full powers of the combined authority should then extend to cover such districts. (Paragraph 99)

The Government recognises the case for greater powers and responsibilities or combined authorities as part of tailored devolution deals. The Government intends to make primary legislation which will enable combined authorities to be delegated powers which go beyond their current remit of economic development, regeneration and transport; and to enable directly elected mayors to be elected to an area larger than one local authority area. Such legislation is necessary in order to give effect to the Government's deal with Greater Manchester.

The Government is proposing to make further changes to the legislation relating to combined authorities. The Government consulted in April – June on proposals to change the legislation relating to the geography over which combined authorities can be established – including to remove the requirement that councils in a combined authority all have to share boundaries. The Government then consulted in December – January on a draft Legislative Reform Order which, subject to Parliament's approval, would give effect to these changes. We are considering the responses to the consultation before deciding how to proceed.

Fiscal agreements

Recommendation 32

Local and central Government should devise a means of enabling those authorities covering functional economic areas that wish to assume significant fiscal devolution to enter into negotiations with the Government. The London Enterprise Panel has made such a proposal within the existing mechanism of the Government's Growth Deals. If the Growth Deal route is feasible, those local authorities that wish to should take the initiative and, subject to an agreed equalisation and redistribution mechanism, make their own proposals within the framework arrangement we urge the Government to develop and adopt. (Paragraph 102)

Recommendation 33

In responding to our report we ask the Government to confirm whether the Growth Deal route with, if necessary, the exercise of provisions in the Localism Act 2011 to transfer powers, is a vehicle for comprehensive fiscal devolution. If this is the case, we would expect that by this route similar powers should be made available to further authorities in due course. If it is not, we recommend that the Government bring forward primary legislation to enable fiscal agreements to be negotiated. In addition, we recommend that within six months after the next general election the Government and local authorities agree and set out the arrangements by which certain areas might secure a long-term fiscal agreement. (Paragraph 104)

Recommendation 34

Central Government rightly has to ensure any introduction of fiscal devolution is done effectively and efficiently. Where an authority or group of authorities demonstrate that they meet the principles we outlined in the previous chapter and come within the framework we set out above, there should be a presumption in favour of fiscal devolution. In our view it is essential that the process develops on from City Deals which, despite their considerable benefits, have been characterised as bureaucratic, placing local government in the unequal position of supplicant. (Paragraph 107)

Recommendation 35

To assist the development of the process we make two recommendations. First, where agreement between central Government and local authorities cannot be reached, there should be a process of impartial evaluation. We see a role for the independent body,

described earlier in our report, to advise. Second, we recommend that local government examine whether a small group of strategic authorities, selected by their peers and with an agreed approach based on the principles we have outlined, present to the Government joined-up proposals for fiscal devolution to several areas in one go. In our view this would provide a collaborative approach, develop the framework and act as a way forward for authorities in future. (Paragraph 108)

See the response to Recommendation 5. The Government is always willing to discuss places' proposals as to how cities and other areas want to drive forward economic growth.

The Government took powers under the Localism Act 2011 to enable them to devolve central government functions to combined authorities and other authorities. The Government agrees with the Committee that the Deal-based approach provides an effective framework for further agreement on freedoms and flexibilities. It has been used within existing powers to provide bespoke agreements on funding and growth rewards.

The Deals are based on consultative, collaborative and bespoke negotiations with local areas. The Government has worked with local areas over the past three years to take forward this ambitious programme in the least bureaucratic way possible, in the spirit of decentralisation. One example is the light touch monitoring arrangements that have been agreed with local areas which allow them to demonstrate their successes and therefore make the case to secure more freedoms and flexibilities from Government.

Constitutional issues

Recommendation 36

Wider questions about the role and place of local government in our constitutional settlement should not delay fiscal devolution. But implementation of this significant change will require appraisal. We therefore recommend that towards the end of the next Parliament a comprehensive assessment of the operation of any fiscal devolution and decentralisation take place. This assessment might be a starting point for a revised constitutional settlement. On this issue we welcome the Political and Constitutional Reform Committee's existing work, which we expect will inform any such revision. (Paragraph 111)

The Government notes the Committee's recommendations for the next Parliament. See responses to Recommendations 3 to 6 in particular.

Control over business rates

Recommendation 37

We consider that restoring the ability of local authorities to set the business rate multiplier to meet local circumstances, combined with the power to vary the rate for specific projects and categories of business, will provide authorities with a key lever in stimulating and fostering local economic growth as well as guaranteeing that they work closely with local business. It will ensure that local authorities have to consult with, and focus on the needs of, local business. We see a logic in the same multiplier being set across the devolved area.

We also recognise, however, that there may be a concern about the potential for excessive increases in the multiplier. One option to constrain that would be for local authorities in a devolved area to be limited to increasing business rates by no more than the increase in the average council tax in the devolved area. The operation of the business rates levy would need to avoid penalising authorities that, after full consultation with local business, increase their multiplier. (Paragraph 119)

The Government notes the Committee's recommendation but currently has no plans to change the system and move back to locally set business rates. Such a system could allow for regular increases in business rates, increasing the burden on local businesses. It would also have limited local accountability, given that local businesses do not have voting rights.

Following the Localism Act, local authorities have powers to increase business rates through levying a supplementary business rate or via a Business Improvement District, if backed by a referendum of local businesses. They also have powers to cut business rates through local business rate discounts, half of which are funded by the Exchequer.

The Committee's proposals, unlike current arrangements for Business Improvement Districts, would not require the consent of the business community, and would not be directly tied to local investment and business improvement.

The current system, in which the Government sets a national multiplier for business rates and allows local authorities to retain half of locally generated revenues, strengthens the link between local decision-making and increases in the value of local tax base.

At Autumn Statement 2014, the Government announced a review of the future structure of business rates, to report by Budget 2016. This will be fiscally neutral and in line with agreed financing of local authorities. The scope will be confirmed in due course.

Business rates revaluation

Recommendation 38

We detected little clamour for transferring the revaluation of business rateable values to local areas as part of the process of fiscal devolution. The main concern has been the delay in holding national valuations. The time has come to set a timescale for an independently commissioned national business rate revaluation and, to ensure it happens, for it to be set in primary legislation without the facility to change the date through secondary legislation. We recommend it takes place every five years, beginning in 2020, and within six months of a general election. Revaluation could then coincide with the resetting of the Business Rates Retention scheme, to which we see a strong link. Subsequently, it could coincide once every 10 years with the resetting of any assessment of relative need among local authorities, administered by the independent body to which we have referred. In our view such a process would ensure not only regular and fair equalisation and redistribution of resources, but predictability, allowing local authorities to plan ahead. (Paragraph 121)

Business rates revaluations have taken place every 5 years since 1990, in accordance with statute. The revaluation due in 2015 was postponed for two years, until 2017, in order to give business the tax stability that they need at this time to grow and help improve the economy. Postponing the 2015 revaluation supports local economic growth by avoiding sharp changes and unexpected hikes in business rate bills. It provides certainty for business to plan and invest. After 2017, statute again requires revaluations to take place every 5 years.

In December 2014, the government published its interim findings from its review of business rates administration. This included analysis of the impacts of moving to a system of more frequent business rates revaluations. The government welcomes views on this analysis.

Recommendation 39

In sum, the independent body we recommend would introduce a substantial degree of objectivity into local government fiscal management. Specifically, it would be responsible for: assessing relative needs and resources every 10 years, starting in 2020 when the BRRS is rebased; evaluating proposals when a fiscal agreement cannot be reached; and commissioning the independent revaluation of business rates and council tax every five years, starting in 2020. (Paragraph 122)

The Government believes that it is in the best position to carry out the reassessment of needs since this must take into account the fiscal policies and constraints of the Government of the day. What is important is not the independence, or otherwise, of the body that assesses relative needs and resources every 10 years, but the transparency of the process and the ability of those affected by the decisions (ie local authorities) to influence the design of the needs/resource assessment. We have ensured that local government is actively involved in the settlement process and in changes to distribution methodologies.

The Valuation Office Agency provides the Government with independent valuations on non-domestic property for use in revaluations.

The Government believes policy and timing of any revaluation should remain a matter for Parliament to determine, given their broader implications for the burden and spread of taxation on taxpayers, rather than being passed to an unelected and unaccountable quango.

Council tax

Recommendation 40

We found across local government in England, if not a demand for full fiscal devolution in all areas, a strong appetite for greater fiscal responsibility. The Government is going to have to learn to have confidence in local authorities in the same way it has confidence in the devolved legislatures. For a start all local authorities should be trusted with responsibility for setting the council tax rate in their areas. We consider that all local authorities should have the freedom to set their local domestic property tax rates. There is no hard and fast rule that they will automatically use this flexibility to increase their council tax rates, but if they do they should be free to do so and then test local people's appetite for it, as they do for a range of decisions, on local election polling day. (Paragraph 125)

The Government does not support this recommendation.

The Coalition Agreement included a commitment to allow local people the right to approve or veto excessive increases in a referendum; we consulted on this and proceeded to implement it through the Localism Act 2011. This replaced central government capping, which had existed under successive governments since the 1980s. The great advantage with referendums as opposed to capping is that local people take the final decisions on excessive increases, rather than central Government. There are no limits on council tax increases - authorities can explain to people locally why they need money for projects or services and how this will benefit their local area.

Successive Governments reserved the right to limit increases in domestic taxation where these were judged to be excessive – replacing this with a power for local people to approve or veto excessive increases represented a marked shift towards localism. Council tax is determined annually, so it is right that local people can take a view on excessive increases in any given year rather than wait up to four years for a council election.

We believe councils should be freezing council tax and helping families and pensioners with their cost of living, but decisions are for individual councils – we are in no way opposed to council tax increases of any amount where a local people have given their approval in a referendum.

Recommendation 41

Council tax rates are based on valuations made a generation ago, and those in the highest-banded properties are limited to paying no more than three times the tax of those in the lowest. The pretext for deferring revaluation—that it would increase most people's council tax—is erroneous if the revaluation is carried out properly and is fiscally neutral overall locally. Therefore a revaluation of itself must not affect a council's income. If nothing is done, there is a risk that the whole system will eventually collapse or, like domestic rates, have to be replaced. If there is a case for a revaluation of business rateable values—last carried out in 2010—the case for revaluation of domestic rates must be greater. We recommend that Government introduce legislation to ensure, for the purposes of Council Tax, domestic properties are revalued every five years. (Paragraph 128)

Recommendation 42

There is also scope for further flexibility. We conclude that devolved areas—which we envisage, in the first instance, would be London or combined authority areas—should be given the power to introduce new council tax bands at the top end of the scale and to split existing ones. The national revaluation will therefore need to be precise, citing a property's price not just its band, so that any devolved local authorities wishing to introduce a new band are able to include the appropriate properties in it. Doing so might go some way to increasing fairness in the distribution of the tax burden locally. (Paragraph 129)

Making changes, whether national or locally, to the banding system would require a general revaluation. The Government announced in September 2010 that there would be no general revaluation for council tax purposes, across England, during the lifetime of this Parliament as it would be expensive to carry out, could lead to increased council tax bills and is unnecessary.

Following the council tax revaluation and re-banding exercise in Wales in 2005, four times as many homes moved up one or more bands than moved down. Two-thirds of the net rises were amongst homes originally in Bands A to C, meaning that those on more modest incomes were hardest hit.

In the first year of the Welsh revaluation, council tax income rose by 10 per cent, of which 4 per cent was due to that year's increase in Band D rates, and 6 per cent due to more properties in higher bands due to the revaluation . To place that in context, a 6 per cent rise in council tax receipts in England would today represent a sustained tax increase on hard-working people of £1.4 billion a year, every year.

Stamp duty

Recommendation 43

The yield from stamp duty in London and the South East is a fiscal anomaly in England. Full fiscal devolution of the tax in London could deprive the Exchequer of a significant amount of revenue that could be used elsewhere and for different purposes. As we have set out, to meet the principle of equalisation, it could be devolved in London subject to a levy requiring transfer of duty above an agreed threshold to the Exchequer. On the basis of this requirement, which could apply also to other devolved authorities, we recommend that stamp duty be included in the fiscal devolution framework. In addition, we would expect the Department for Communities and Local Government to monitor and review lessons that can be drawn from devolution of stamp duty in Scotland to inform its introduction in England. (Paragraph 131)

The Committee makes no explicit case for the decentralisation of stamp duty except that it is a property based tax and therefore would be difficult for taxpayers to avoid and can be clearly apportioned to an area. Greater Manchester has argued that it would encourage promotion of house buying activity. Decentralisation would however tend to benefit areas with more rapidly rising house prices. It could therefore provide a direct financial reward for high rates of house price inflation and a perverse incentive where local areas failed to increase the supply of homes in line with demand. In contrast to the New Homes Bonus, it would not directly reward areas that acted to provide more homes.

Other taxes and fees and charges

Recommendation 44

Arrangements have been developed to allow the devolved nations to introduce new taxes, as well to take control of business rates, stamp duty and, in the case of Scotland, part of income tax. As we expect fiscal devolution in England would in the short term be restricted to a handful of areas the opportunity is available to replicate some of the Scottish and Welsh arrangements in areas in England with the capacity to take advantage of these resources and to implement projects with the potential to generate good returns on investment. At the minimum fiscal devolution should empower these authorities to introduce relatively low-yield taxes. A range of suggestions includes betting taxes and landfill and hotel duties. (Paragraph 134)

The Government rejects this recommendation. See responses to Recommendations 4 and 6. There is no public appetite for raising taxes on local residents and businesses, that increase the cost of living and potentially damage the local economy.

Recommendation 45

Recognising what is happening in Scotland and Wales we see a case in the long term for examining the apportioning in a similar manner to Scotland a percentage of income tax or VAT to groups of authorities covering significant geographical areas in England. We recognise, however, this is an extension of the fiscal devolution on which we have not taken detailed evidence. We would not want consideration of devolving income tax and VAT to hold up fiscal devolution of property taxes, but Government and local authorities should evaluate the proposals. Evaluation of devolution of these taxes could and should form part of the comprehensive assessment of the operation of any fiscal devolution and decentralisation we have recommended to be carried out after the first wave of fiscal devolution has been implemented and which we describe in the previous chapter. (Paragraph 135)

The Government notes the Select Committee's recommendation.

Recommendation 46

We recommend that as part of a devolution framework and in fiscal agreements the Government provide for the relaxation of the current controls on the levels of fees and charges local authorities can charge for services and the purposes to which the income generated can be disbursed. (Paragraph 137)

The Government rejects the Committee's recommendation. This Government has taken a different view on charging to the last Administration which actively encouraged councils to increase fees and charges. This Government believes that taxpayers should be protected from backdoor stealth taxes.

There are sufficient specific powers already in place to charge for services throughout local government legislation. Introduced by this Government, The Localism Act 2011 introduced the wider General Power of Competence, with charging provisions which closely follow the requirements of the Local Government Act 2003 to allow local authorities to charge up to full cost recovery for discretionary services under the terms of the power. Local authorities have discretion over the methodology by which costs are assessed, charges may be set differentially and local authorities are not bound to charge.

However, the Government remains of the view that where a local authority can charge for a statutory service, there should be a specific charges regime, with the legislation owned by the policy owning department to prevent local authorities providing gold plated services as a means for generating additional funding.

The Government defends its position that there should be constraints in place on the use of fees for example in the case of car parking. The Government is aware of concerns that some local authorities appear not to be using their powers to meet the best interests of road users, communities and businesses in their area. There are concerns about over-zealous parking enforcement, for example the increasing use of CCTV and high parking charges driving people out of town centres, pushing up the cost of living and making it harder for people to park responsibly and go about their everyday lives. Parliament has been clear that on-street parking charges should not be used as a source of general revenue, and this Government has taken steps to reinforce that position.

It is Government policy that fees and charges should be proportionate and should not be seen as an opportunity for making a profit or generating income as an alternative to cutting out waste and driving down expenditure, but for cost recovery purposes only.

Borrowing

Recommendation 47

One key aspect of fiscal devolution is its focus on stimulating economic growth. Local authorities in England wanting to grow their economies may therefore need to borrow to invest. Given the Government's focus on deficit reduction, however, we recognise that a general relaxation of the rules on borrowing is not appropriate at this stage. But those local authorities that negotiate a fiscal agreement with the Government will have had to demonstrate strategic financial management and competence. Such authorities should therefore have access to greater and more flexible borrowing powers—for the purposes of capital investment in projects clearly and quantifiably designed to stimulate growth. Enhanced powers should remain within the stringent prudential borrowing code, however, ensuring authorities have the means and capacity to meet their annual borrowing costs. This would allow them to pursue the innovative approach to borrowing that the Government has, commendably, negotiated with Greater Manchester, allowing it to benefit from increased tax take. Greater local revenue streams would enable local authorities to borrow to invest and so increase their tax yield and reinvest in further schemes. Devolved areas should have the power to determine what TIF projects to introduce without the need for Treasury approval but within the prudential borrowing code. Given the limited number of projects to which this would apply, this should be achievable in practice. (Paragraph 140)

Since April 2013, all local authorities have been able to undertake Tax Increment Finance borrowing - borrowing against future business rates revenues to partly or wholly fund the provision of infrastructure, within the existing prudential borrowing rules.

In the 2012 Budget the Government further committed to introduce a limited number of "TIF 2" schemes (now called "New Development Deals"), that separate the growth in rates on predefined sites from all other aspects of the local government finance system to provide greater local control over revenues on that site. These offer 100% rates retention for a twenty-five year period.

New Development Deal schemes come at a cost to government since we have to count the cost of the additional capital expenditure the new borrowing supports. As a result, with our continued priority being deficit reduction, Government has limited the amount of funding available for these and similar schemes.

New Development Deals were agreed as part of Wave 1 City Deals in July 2012 in Newcastle (£92

million), Nottingham (£8 million) and Sheffield (£33 million) and were supported by £150 million funding in Budget 2011 to offset the impact on public sector debt.
The Government has also established 24 Enterprise Zones; agreed 100% retention on five enterprise areas in the West of England Wave 1 City Deal; and in the Vauxhall Nine Elms development area has committed to allow the Greater London Authority to undertake up to £1 billion borrowing to support the Northern Line extension.

The Government has no plans to finance further New Development Deals at this point.

Recommendation 48

We reiterate our recommendation in a previous report that the Government lift the cap on local authorities' borrowing for housing. We believe this should be universally applied. (Paragraph 142)

The Government does not support this proposal. The prudential regime continues to be highly effective in facilitating and regulating council borrowing. The very widely supported reform to the Housing Revenue Account system for funding council housing has given council landlords direct control over a very large rental income stream. Our reforms must not jeopardise the Government's first economic priority, which is to reduce the national deficit. Borrowing made possible by any income stream, including housing rents, must be affordable not just locally but within the national fiscal framework. The prudential borrowing rules were designed to focus solely on local affordability. It is for this reason that the Government also has reserve powers to address any nationally unsustainable increase in borrowing. The housing borrowing cap will help to ensure that such exceptional measures do not become necessary.

However, we have recognised that some councils may need additional borrowing flexibility to help them realise their housing ambitions and deliver new affordable homes more quickly. We made £300 million worth of additional borrowing capacity available and have allocated £222 million of this to 36 councils across England to support over 3,000 new affordable homes.

National fiscal implications and management

Recommendation 49

Growth in one area of England does not mean reduced growth elsewhere. Fiscal devolution focused on local growth may involve increased local spending financed from local or national taxes, borrowing or voluntary contributions through business levies. Under the current rules limiting gross expenditure, this would have to be offset by a reduction in expenditure. Applying that requirement to infrastructure projects would be unjustified. While we accept that all governments have to manage the resources taken by the public sector, we think it would be regrettable if the control system were used to hobble fiscal devolution in England. It has not obstructed fiscal devolution to Scotland and Wales. We recommend that the Government clarify how the controls on UK public expenditure will apply to fiscal devolution to Scotland and Wales and whether similar arrangements could be put in place for local authorities in England. (Paragraph 146)

The Devolved Administrations work within the same public spending framework as UK

Government departments.

Fiscal devolution to Scotland and Wales is intended to make the Scottish and Welsh Governments more accountable for the revenues raised in those countries and does not automatically translate into increased spending power. In particular, the Devolved Administrations' block grants are reduced to reflect the revenues that the UK Government is forfeiting through tax devolution. The Devolved Administrations may use the devolved taxation powers to replace this funding or to increase (or indeed reduce) the amount that is available for them to spend.

Recommendation 50

There are perhaps three ways in which the problem could be addressed. First, local authority expenditure on capital projects designed to stimulate economic growth could be taken out of the control total. It would be distinguishable by the ratings agencies, and would be used to invest in growth projects, a potentially virtuous circle. Second, the Government could agree to raise Total Managed Expenditure to accommodate expenditure devolved to local authorities in England. A third way would be to decrease central Government spending. (Paragraph 147)

Recommendation 51

No Government having accepted fiscal devolution to Scotland and Wales should allow the Treasury's fiscal control system focused on gross expenditure to require every additional pound of additional public expenditure in Scotland and Wales to be offset pound-for-pound by a reduction in spending in England. Nor should such a perverse arrangement apply to additional public expenditure determined under fiscal devolution in England. Where such expenditure is fully funded by increased local taxes and charges a gross control of public expenditure cannot be justified. Fully funded expenditure does not increase the deficit. (Paragraph 148)

The Government is committed to responsible fiscal policy and ensuring that debt as a percentage of GDP falls. To help achieve this, alongside the Office for Budget Responsibility's forecast of tax revenues, the Government has set an assumption for Total Managed Expenditure, for the years 2016-17 to 2018-19. While decisions on the exact composition of spending will not be taken until the next Spending Review, it is not the case that additional self-financed spending in Scotland or Wales will lead to corresponding reductions in spending in England.

Furthermore, the Government has consistently prioritised capital investment over day-to-day spending. At Autumn Statement 2011 and Autumn Statement 2012, the Government increased its capital spending plans by £10 billion, funded through permanent reductions in wasteful spending. At Spending Round 2013, the Government committed to fund a pipeline of specific projects worth over £100 billion over the next Parliament.

ISBN 978-1-4741-1579-7
9 781474 115797