

# The future of fiscal devolution

Non-Verbatim Minutes



The Devolution  
All-Party Parliamentary Group

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| <b>Date</b>     | Tuesday, 13 December 2022   |
| <b>Time</b>     | 14:00 – 15:00   |
| <b>Venue</b>    | Room T, Portcullis House and virtual attendees via Zoom.  |
| <b>Chair</b>    | <b>Liz Twist MP</b> (Member of Parliament for Blaydon)<br><br><i>Andrew Lewer MBE MP, Chair of the Devolution APPG, was unable to attend this meeting and sent his apologies.</i>   |
| <b>Speakers</b> | <b>Cllr Nicholas Heslop</b> , Chair, South East Councils<br><b>Alex Morton</b> , Director of Strategy at the IEA<br><b>Cllr Gillian Ford</b> , Deputy Leader of Havering Council and Deputy Chair of the LGA City and Regions Board<br><b>Iain Murray</b> , Director of Public Financial Management at the Chartered Institute of Public Finance and Accountancy<br><b>Andrew Carter</b> , Chief Executive, Centre for Cities |

## MINUTES

The meeting's Chair, **Liz Twist MP**, opened the meeting, welcoming speakers and attendees and advising that the APPG Chair, **Andrew Lewer MBE MP**, could not attend today's meeting as he was speaking in the Levelling Up Bill debate in the House of Commons and MPs are required to attend the debate from the start. He therefore sends his apologies.

**Liz** invited the first speaker, **Cllr Nicholas Heslop, Chair of North East Councils**, to address the meeting.

**Nicholas** said he has been a councillor on Tonbridge and Malling Borough Council for 25 years, with 18 of those years spent serving in the cabinet and 9 years as leader of the council. South East Councils, of which he is Chair, were grateful to the APPG Devolution for referencing their submissions in their recent Levelling Up White Paper inquiry.

South East Councils consists of 45 councils, acting as secretariat to the APPG for the South East, chaired by Sally-Ann Hart MP. They focus on what the levelling up agenda and what it means for the south east. There are deprived areas in rural communities, coastal communities and across the south. A recent inquiry of the APPG South East highlighted the need for levelling up in the region, as well as in the north and midlands region. The South East makes a net contribution to the exchequer and he felt a reset is needed to allow their economic strength to shine and drive the country's growth.

In March 2022, South East Councils commissioned a report from the Think Tank Localis. The report called for regional councillors to come together to discuss local government. In July, the APPG published a report called 'financing the future, what does the levelling up mean for the south east?' It highlighted that the south east should not be left behind. In October, they co-hosted a summit of the south east with key stakeholders including Paul Scully MP, then a government minister. They are calling for a two year fiscal devolution trial to be run in the south east.

**Liz** thanked Nicholas for his contribution and invited **Alex Morton, Director of Strategy for the IEA**, to speak.

**Alex** said devolution should be about aligning incentives and structures to make it work better. Some areas need more, some need less. The key question is what is the purpose of the devolution that is being undertaken. Alex highlighted social care and said he does not understand why social care is ran by

councils and that skills and transport would be more suited to be more deeply controlled by councils. Social care provision has been held back by being council-controlled and having people moving to council areas places additional pressure on these provisions and councils can be reluctant for this movement to take place due to the pressures it will create. Alex felt this is one bad example of devolution. Councils could receive more powers on transport and skills with powers removed from quangos.

On business rates, councils should be more focused on economic growth. In planning there are already some levers and Alex acknowledged planning reform is very complicated with unitary authorities, for example, being too large for some aspects of the planning and design process.

Alex outlined why it would be unfair to punish areas where no growth is possible, for example Cambridgeshire being well-located to grow compared to Cumbria, which is not. It is unfair to treat these two areas as if they are the same. There are different starting points, but other metrics such as the value of commercial property or land values could be used and analysis of the nuances of these metrics should influence what expectations are placed upon local authorities in these areas.

**Liz** thanked Alex for his comments and invited the next speaker, **Cllr Gillian Ford, Deputy Leader of Havering Council and Deputy Chair of the LGA City and Regions Board**, to address the meeting.

**Gillian** said the financial pressures facing councils is well-documented and issues such as inflation, energy price increases and base budget pressures such as uplifts in contract prices and a higher than average national living wage place additional fiscal pressure on local authorities. LGA analysis from June found that £2.4bn is required to address these base budget pressures. There is a funding gap for councils of £3.4bn in 2023/2024 rising to £4.5bn in 2024/2025.

Additional resources from the Autumn Statement are welcomed, but council tax is not the solution for meeting the long-term pressures councils are facing. Central government needs to develop a long-term strategy enabling councils to deliver services and growth more effectively and empower local leaders to make decisions about services. Further steps are needed to deliver levelling up. There is concern about the bidding process where councils receive differing amounts of resource to support their bidding for funding, which discourages speculative bidding. There is also uncertainty around what roles MPs play in the bidding process. Devolution offers the best value for money and councils can deliver better outcomes than a centrally managed system.

The LGA calls for tools and resources to be given to local councils to avoid micro-management and duplication. Place-based approaches demonstrate the value of early intervention. Short-term funding prevents long-term innovation and existing financial pressures remain for councils where it is an ongoing challenge to set their budgets.

**Liz** thanked Gillian for her comments and invited the next speaker, **Iain Murray, Director of Public Financial Management at the Chartered Institute of Public Finance and Accountancy** to address the meeting.

**Iain** thanked the Chair for the opportunity to speak. The longer term picture is key, where short-termism, often practical and understandable, has caused uncertainty. The question is how to balance local fiscal freedoms with longer term funding settlements. In terms of local fiscal freedoms there are questions about council taxes, which is effectively questions the local property values, which does not reflect the move to organisations being more invested in digital space.

At present there is a sense of pessimism, which risks stifling innovation and could cause disinvestment, with less incentives to spend and more incentives to, for example, hold reserves. It is encouraging that ministers recently announced a two year settlement which is a step in the right direction, but settlements need to be confirmed over a longer period than two years for maximum impact.

Perennial issues will still persist. There are demand issues around children and adults social care which are not solved by local fiscal freedoms. There needs to be an evidence base built around prevention and dealing with the root causes to make interventions to support people living healthy and fulfilling lives. How the health sector and local government works together will impact on the sustainability of both sectors.

Accountability is very important. At present there are statutory requirements of officers such as the Section 151 officer. These requirements should be updated and Iain felt that political accountability is less robust and whilst officers hold professional risk from a legal standpoint, how can this balance be redressed more effectively so politicians are held accountable too. Performance information and benchmarking must be used to demonstrate the achievement of outcomes. There is an increased financial challenge as local government will be affected by automation and how data is collected and used will be important as we move forward.

**Liz** thanked Iain for his remarks and introduced the final speaker of the afternoon, **Andrew Carter, Chief Executive, Centre for Cities.**

**Andrew** thanked the Chair and said he recognised that the way local government is funded is currently dysfunctional, but this often points a debate about how much funding is given, when the way funding is delivered is very important. For fiscal devolution to work, there must be clear incentives for local government to build the tax base. Many local authorities are essentially social care providers, using up to 60% of their budgets on social care. Business rates and council tax will need to be reformed in order to be more efficient. Andrew felt the reform should take place before the powers are handed over.

London has access to two tax revenues whilst Paris has 9 and New York has 22. This highlights a question about the tax base and where tax revenue is generated from and a question on how current tax is split, e.g., income tax. The responsibilities of local government would need to change which points towards institutional reform to make fiscal devolution meaningful. Conversations about fiscal devolution are helpful, but other bits of the jigsaw will need to be dealt with to make it work.

**Liz** thanked Andrew for his comments and opened the floor for a discussion on the issues raised. Liz posed a range of discussion points to the panel including, what does devolution mean and how do we move forward, councils are looking at net zero and what that means for council services and is too much time being spent on funding bids and is that system working?

**Gillian** confirmed that the LGA feel net zero is central for many councils and is central to every part of council work and many jobs can be created in relation to retrofit. The UK Shared Prosperity Fund plans have not yet been approved it is not known what programmes part of that process will be.

**Liz** said there are clearly opportunities but how it is funded is a key question. **Alex** said he was fascinated that councils were apparently so confident in the critical areas of planning, economic growth and social care that they want to take on another critical area. **Gillian** said retrofitting and infrastructure are already part of council's responsibilities and are not new areas. **Alex** clarified that he fears there would be an element of grandstanding within this area, but where there are already responsibilities held by councils, mainstreaming net zero would fit into the policy areas. **Gillian** said net zero is an immense task that would require central resource. There are certain impacts in certain areas that needs funding to enable the delivery of net zero.

**Liz** raised the issue of social care, advising it is a big issue for most councils and many of today's speakers had mentioned it in their remarks. Many local authorities feel very strongly that they connect with their local population when dealing with social care and invited comments from the speakers on this issue.

**Alex** said that in the 1980's councils had a co-ordinating role in social care. In the mid-1990's the funding model switched and then councils have been underfunded ever since and are therefore reluctant to build new social care provision and retirement homes in their area. Productivity has fallen across the sector. Alex feels there is a misalignment of incentives and councils are worried about social care.

**Gillian** said Havering has 56 care homes and they have a high layout for adult social care and they welcome private sector care homes. Havering council faces a deficit of £4.1m in adult social care expected by March 2023. Havering is being outpriced by other authorities who get more funding.

**Alex** said that his point was not a moral one, but that the data showed there has been a massive drop in social care provision since 1995. This suggests that an application to bring in many retired people into an area already under financial pressure could lead to an authority thinking twice before allowing that application to proceed.

**Liz** said that her experience as a former councillor in the Northeast led her to conclude there are different dynamics in different areas and people often require support in the home too. More people receive home support in the north east, for example.

**Nicholas** highlighted the role of local plans in social care provision and the issue of land values and competing against private developers.

Nicholas returned to the discussion on fiscal devolution and highlighted research conducted by South East Councils that suggested variations in the level of devolution whether that be town, city, borough, or region level preferred by different sections of society. Research suggested strong support for local levels of devolution, particularly in business. Nicholas said he would share the data from South East Council's research with the APPG. Nicholas said the data clearly demonstrates complexity in terms of different stakeholders having differing opinions.

**Andrew** agreed it is a complex issue but said that simply speaking, the incentive needs to be set so it influences the decision makers decision and that this matters more than the level at which the decision is being made. In a hypothetical example, many district councils might not keen on housing developments but they deal with planning, but the unitary authority, at a higher level, would be keen on devolution and the potential for building more homes.

**Alex** posed the question whether people are prepared to accept discrepancies in service provision because of decisions taken by councils that hindered growth? He felt people's gut instinct for fairness will come to the fore when front line services are affected and when these problems can be directly attributed to decisions taken by the council in question.

**Iain** said the key incentive to give to a local authority is around economic growth. As a society a more rounded view must be found on what good local services looked like and what good delivery looks like. Local government does a lot and net zero is a good example of what people want, but Iain posed the question of whether growth remains the ambition or should we be looking at different metrics?

**Gillian** said the LGA felt there must be a centralised core of funding to address disparity across the country. Social care should be a centralised pot of funding to avoid it being funded through council tax. Disparity is also found in the costs associated with bid funding which does not lead to equal opportunities to bid for funding.

**Liz** thanked today's speakers and those who attended the meeting for an excellent and interesting discussion, acknowledging there are many pressures for local government funding moving forward.

The meeting closed at 15:00.