Essex County Council (ECC) welcomes the opportunity to contribute to the national debate on devolution within the United Kingdom via the inquiry being undertaken by the Political and Constitutional Reform Committee. Given the crucial nature of this debate, occurring as it does at a once-in-a-generation moment where real change appears to be on the table, we would be delighted to provide further evidence to the Committee in person.

Although the Scottish referendum has acted as a catalyst and reinvigorated a wider debate, devolution must not stop at national level. We are responsible for crucial public services that matter to people and their communities and yet, despite recent localist reforms by the current Government, are heavily dependent on central government, lacking the powers and flexibilities that are considered the norm of local government in most other major Western democracies. The time is now right to empower local government.

We see a major risk that devolution is arbitrarily limited to a small number of English cities. While we support the empowerment of our great cities the Committee should recognise that England’s counties have the strength of identity, the scale and the ambition to take more control of how they lead their communities, shape their places, and raise and spend revenue at a local level. Essex, for example, is more populous than four EU Member States and has a GDP the same size as Turkey.

Devolution is not only about where powers and responsibilities sit: it is about how we can reinvigorate local democracies so that local communities can shape the places that they live in and feel more connected to the decisions that affect their lives. These reforms must provide a platform to meet the financial challenges and increasing service demand that local authorities are currently faced with, strengthen local areas’ ability to determine their own future, and shape public services to deliver outcomes for our residents and communities.

Our response lays out our proposals on devolution to local areas for consideration by the Committee and centres on opportunities in the following areas:

- **Fiscal powers** – greater freedom for local authorities to shape incentives and raise a greater proportion of revenue through local taxation. We also call on HM Government to establish a system of place-based, multi-annual financial settlements giving local public services a stable platform on which to secure improved outcomes for residents and communities;

- **Governance arrangements** – new models of joint governance that ensure effective accountability and the delivery of outcomes in a local area through a single outcomes framework for all local public service agencies. We also call on HM Government to reward those who succeed in developing integrated governance mechanisms with a clear devolutionary settlement.

- **Powers and Duties** – we ask HM Government to consider our specific proposals on a range of devolution options that promote local decision-making, increase local accountability and give greater funding certainty without the need for structural or organisational change.
6. We are pleased that the debate on devolution has moved beyond the “what ifs” to a point where the debate is about how far and how fast. We know that large-scale structural reorganisation and regional assemblies are unlikely to be back on the table. Our evidence demonstrates that, as long as Government listens to big places (cities and counties) with big ambitions, devolution of powers can improve outcomes, save money and tackle the major challenges our communities face.

Devolution to Local Government - opportunities, challenges and vision

7. Over the last 15 years there has been a gradual decentralisation of power over spending and public services in England. Community Budgets, of which Essex was a pilot, and City and Growth Deals have allowed local providers of public services to share their financial resources. However, while welcoming greater freedom over spending, local authorities have been subjected to increasing central control of taxation with locally raised revenue collected and redistributed by central Government.

8. Of all the different branches of government in the UK, local government has arguably demonstrated the greatest propensity for change, innovation and efficiency. Despite severe cuts to our budgets of around 40% over the past four years (with more to come), councils have demonstrated their ability to find efficiencies in a way that central government departments have not. In the large majority of cases their reputation for local effectiveness and levels of public trust in their leadership are remarkably high.

9. In its report, Devolution in England: the case for local government, the Communities and Local Government Committee calls on the Government to work with local authorities and establish a devolutionary framework in which tax and spending decisions are made closer to the people they affect and highlighted:

“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.”

10. Local authorities have a vital role to play in the wider conversation on devolution and this statement lays out our proposals for the Committee to consider.

Devolution of Fiscal powers

11. Genuine localism requires that local authorities have the ability to raise a reasonable proportion of their own revenues. While ECC does not support increases in the overall burden of taxes on households and businesses, greater freedom to shape local taxes could provide a lever for incentivising individuals, households and communities to adopt specific behaviours. This is increasingly important as local partners...
seek to shape the whole system of public services, and the behaviours of citizens, to reduce service demand, and prevent social problems arising.

12. The current NNDR system allows local authorities to retain a share of any NNDR increases that result from growth in the number of businesses paying NNDR. But a complex system of tariffs, top-ups, and levies has limited the share of revenue that can be retained. ECC sees only 4% of its total funding coming from this ‘growth driven’ component of NNDR. From such a low base, upper-tier councils are unlikely to ever derive significant financial benefits from their work to support the local economy. Government could achieve a stronger link between NNDR growth and council income without increasing overall funding to local authorities by allowing councils to retain a higher proportion of NNDR.

13. Local authorities cannot place a cap on spend - particularly on vulnerable people with complex needs. But central government has, in effect, introduced a cap on local authority income. In the case of council tax, requiring councils to undertake expensive and unwinnable referenda in order to increase council tax beyond restrictive, centrally-determined thresholds undermines local decision-making and accountability, and robs councils of a key lever through which they can mitigate budget pressures. Limiting council tax increases to below 2%, limits annual increases in ECC’s tax revenue to less than one fifth of the annual financial pressure caused by increasing service demand and inflation. Ministers could give local authorities greater freedom – and greater scope to take decisions on their own resourcing – by setting the trigger point for referenda at a higher level and/or linking the trigger point to inflation indices or removing the trigger altogether.

We also ask for greater freedom over how these local taxes are designed, including:

- **freedom to shape a range of discounts and reliefs on council tax**: reviewing the Single Persons Discount which requires us to give everyone living on their own but paying Council Tax, amounting to some £68million per year in Essex (£48million payable by ECC). Everyone receives this irrespective of their financial situation – for example someone paying £450k for an apartment in Chelmsford would benefit. This is not family friendly and is a poorly target benefit;
- **flexibility to undertake more regular revaluations of council tax bands or to add new bands**: introducing greater buoyancy into the tax and altering incentives within the local housing and housing development market;
- **freedom to determine the NNDR multiplier**: enabling competition to attract businesses balancing tax income against the need to generate economic growth; and
- **freedom to shape discounts and reliefs on NNDR**: encouraging different business sectors, or providing reliefs to those supporting wider social outcomes (e.g. by taking on apprentices).

14. 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 requires enhanced local autonomy. Without it, local authorities will be agencies of central Government, focused in large measure on the requirements set by the funder and acting within spending constraints set by Whitehall.

15. A place-based funding settlement agreed for the life of a parliament (or for longer in the case of transport infrastructure and ambitious transformation programmes such as health and social care integration) would provide a platform for local public services partners to plan their activity at the system-level, take a holistic
approach to the design and delivery of public services, reduce aggregate demand for services and remove
any incentive to ‘shunt’ costs from one area of public spending to another. Crucially, it would provide a
stronger basis for refocusing resources on the issues that affect our residents and communities, rather than
around structures of government.

16. Multi-year budgeting would provide local government with the same level of budgetary certainty afforded
to Government departments, and should include mechanisms for the retention of additional savings over
this period for local reinvestment.

17. Rather than pooling funding at source, a pragmatic approach to a place based settlement should set out
each agencies budget and spending envelope for the entire spending review period. This should then be
summarised in a table and published at the time of each Comprehensive Spending Review. Rather than
establishing a ‘single pot’ for each place, the provision of financial information in a published table would
set out a profile of total public spending for each agency (local and national), operating in the area over the
period. This would support the principle of ‘one place, one budget’ whilst minimising technical challenges
for departments across Whitehall.

18. The publication of this information would provide greater certainty for partners to commit to and sustain
investments in public sector reform activity - including a platform for investing based on social impact,
irrespective of administrative, organisational or geographical boundaries. It would encourage longer-term
planning and enable partners to consider proposals (e.g. preventative work) that may take many years to
deliver benefits. It would also allow a wider range of partners to hold reserves, and later draw these down
to invest in public service reform – a flexibility that local authorities currently enjoy but that others (such as
clinical commissioning groups) do not. Crucially, it would also allow the local areas to retain the benefits of
effective preventative activity, re-investing system-wide financial savings and in further prevention. Such a
detailed breakdown of budgets would need to be accompanied by a duty of collaboration and that
agencies work together to plan in the round and pool budgets.

19. Further provisions to strengthen the use of place-based funding might include pooling a small proportion of
nationally funded partner budgets at source. These pooled budgets could then be devolved to local areas
and ring-fenced to support the continued development of system-change activity, integration programmes
and system-wide preventative work. Pooled budgets also provide a platform for investing based on social
impact, irrespective of administrative, organizational or geographical boundaries.

20. Local partners can play a clear role in reducing demand for services and interventions funded by Whitehall
Departments. For example, within Essex our Right to Control pilots and apprenticeships programmes have
helped to reduce the numbers claiming welfare benefits; our work with offenders has also helped to
reduce the costs of crime and criminal justice. Where system-level reforms at the local level result in
financial benefits to the exchequer – either in the form of lower costs or increased tax revenues – HM
Government could strengthen the incentive for system-level collaboration by localising a share of the
financial benefits. Such an arrangement would incentivise system-change activity that focuses on demand
reduction, but it would also provide a greater incentive for central government agencies to engage with the
local reform agenda. Local partners would, of course, need to bear the risk that their investment in
system-level reforms does not realise financial benefits.
21. There is a precedent for this type of approach. The Manchester ‘Earn Back’ scheme has established a new payment by results model through which partners across the city are incentivised to invest in infrastructure improvements to support economic growth. If they succeed, they will receive a share of national tax revenues for up to 30 years. The scale of annual payments to Manchester partners will be determined by the city’s ‘growth performance’. HM Government agreed to this payment by results arrangement as part of its City Deal programme. Despite strong evidence that counties make at least as great a contribution to national economic output, this remains a programme which non-city areas have been unable to access.

22. The Core Cities, the Greater Manchester Combined Authority and the Key Cities Group are all examples of where greater control over the spending of resources and more ‘place-based budgeting’ has resulted in better outcomes in skills and health and social care services.

23. But these powers should not be limited to city regions alone; local authorities or groups of local authorities should also be given equal consideration in the debate. The Greater London Authority is an example of how the use of significant tax and borrowing powers has enhanced infrastructure delivery. It was the first local authority to issue bonds which raised £600m to help fund Crossrail and borrowed £3.5b against a Crossrail business rate supplement.

Enhanced governance arrangements
24. Building on the idea of place-based settlements, there is a need to consider new models of governance to ensure effective accountability and the delivery of outcomes within a local area.

25. There are a range of potential mechanisms for developing multi-partner governance arrangements in local areas – Combined Authorities and Economic Prosperity Boards are two key examples. Current legislation requires that any Combined Authority or Economic Prosperity Board involve all local authority partners within a county area – but the complexity of local partnerships and the administrative geography in large counties can make this difficult, if not impossible, to achieve.

26. DCLG have recently consulted on proposals that would allow joint governance arrangements to be established across non-contiguous geographies, and for part of any county area. These permissive changes will give local partners greater freedom and flexibility to establish governance structures that can respond to local needs and circumstances. There is, however, a strong case for further permissive change –
   a. without time consuming and centrally controlled review processes (the process for establishing a combined authority requires an 18 month review and decisions by the secretary of state);
   b. across a wider range of public service functions (combined authority arrangements tend to be restricted to economic growth and transport functions); and
   c. with partners beyond local government.

27. The development of a single ‘outcomes framework’ could provide a platform for streamlining inspection – establishing a single regime for all local public services. Negotiation with government would be required on the outcomes to be sought within any such framework, but accountability for progress must remain ‘horizontal’ to local residents and communities, rather than ‘vertical’ to Whitehall departments and Ministers.
28. Even with these permissive changes in place, the development of integrated governance arrangements will be a challenge. It vital that local public services partners see clear benefits in investing time and energy in developing integrating governance mechanisms. We would therefore urge the current and future government to offer a clear devolutionary settlement to partners who succeed in developing these integrated arrangements. Such a settlement might look to rebalance the relationship between counties and Westminster, including measures supporting fiscal and economic devolution proposals, and better join-up in the mechanisms through which Whitehall departments engage with local partners.

Specific proposals

These proposals offer opportunities to investigate local devolution of Whitehall budgets that could be implemented without organisational or structural change.

Worklessness and skills

29. Centralised employment, skills and welfare to work programmes are failing to deliver sufficient pipelines of appropriately skilled and work ready recruits for local businesses; and are failing to support our most disadvantaged residents into sustainable employment or to improve their employability.

30. Nationally funded skills programmes (DfE and BIS) are learner-led, complex and slow to respond to changing employer needs. This impedes career choices of young people and adults, many enrolling on courses available locally rather than those to best equip them for work and reflecting local employer needs. ECC has consistently argued that these programmes need to be more responsive to local business needs and more accountable to local communities.

31. Essex’s Employment and Skills Board in partnership with businesses, colleges and skills providers has sought to influence provision and help ensure an appropriately skilled workforce. The board has helped employers take on over 3,000 apprentices; made capital investment to improve and expand skills centres; and helped more young people into training and employment. The board is piloting a number of new employer-led initiatives using a locally established £1.05m Skills Investment Fund. Such locally responsive skills programmes could be mainstreamed if national funding streams were devolved allowing local determination of investment priorities.

32. Nationally run welfare to work employment programmes need to improve their performance. Studies into employment provision suggest that programmes that deliver personalised, tailored, local support will achieve better outcomes in attaining sustained employment for individuals. Planning at a national level for local circumstances is not providing the best outcomes for local people. DWP should localise all employment support programmes, for partners to co-commission locally responsive employment support. Furthermore stronger links between this welfare-to-work support and the aforementioned skills provision is imperative to ensuring that workless residents have the opportunity to contribute to and benefit from economic growth.

Health and Social Care

33. The combination of demographic growth, reducing or static funding and new responsibilities through the Care Act means that health and social care services face a sustainability problem. The Nuffield Trust and
NHS England have estimated that an additional £30bn will need to be invested by 2021 in the health system alone to bridge the gap between resources and demand; the funding shortfall for social care could be as much as £7bn by 2020 according to some estimates.

34. The health and social care systems are also separately funded and accessed. They are overseen by two different government departments (DoH and DCLG). There is consensus that the two systems need to integrate and the Government has set a target of this being achieved by 2018.

35. We need a long term, 10 year funding settlement for health and social care to allow better planning and long term investment decisions to be made locally. This is supported by both the LGA and the NHS Confederation. In return local areas would need to commit to pool resources; invest more in prevention; deliver improved outcomes for residents; and share risks and benefits between local authorities and local NHS.

36. Local Health and Wellbeing Boards, possibly chaired by a local Health and Care Commissioner, should be empowered to hold budgets and direct the commissioning of health and social care services. At present local authorities and HWBs simply do not have the powers to take the decisions that must be taken.

Housing

37. Future economic prosperity depends on ensuring that a ready supply of housing for sale and rent, in all price ranges, is available. But building homes requires considerable long term investment in both the houses themselves and the infrastructure required to support them.

38. Housing affordability has reached crisis point and with growing demand and a chronic lack of affordable housing this issue must be addressed. We believe that local authorities have an important role to play in the housing market and should be given more freedom and powers to decide on local housing issues. These could include greater freedom to raise capital with the removal of the borrowing cap on the housing revenue account and the ability to incentivise and bring forward development.

39. The New Homes Bonus (NHB) provides an incentive to increase the local housing supply. However, there is a lack of clarity on HM Government’s commitment to NHB beyond the end of 2015-16. This has stopped prudent local authorities building the revenue stream into their base budgets. By building NHB into core funding, central government could give councils certainty around funding, and sustain the link between future resourcing and housing development.

Transport and Infrastructure funding

40. Local major transport projects are funded through LEPs, via the Local Growth Fund and on a competitive basis. While this requires local partners to present strong business cases, it removes funding certainty, weakens partners’ ability to plan for the long term and limits councils’ ability to attract private finance. By localising funding for major schemes, HM government could help provide funding certainty and enable partners to attract additional investment.

41. This principle shouldn’t be restricted to transport majors funding. By providing long-term certainty on highways maintenance budgets, HM government could better equip councils to phase highways
maintenance and take a more strategic, asset management approach; supporting a move away from short-
term programmes and programmes that rely on higher cost treatment methods.

42. Devolution should not be limited to public spending. The localisation of a share of national tax revenues
should be explored as a way of reflecting the role played by communities across the UK in hosting assets of
national importance. For example, Stansted is the third largest airport in the UK for both passengers and
freight, with 19.7 million passengers per annum in 2009. ECC supports sensible growth at our airports but
investment in infrastructure must keep pace with any increase in passenger numbers. Exploring options for
localising a share of revenues raised through Air Passenger Duty could also provide funding to support
growth in and around the airport ensuring airport capacity is adequate in the future.

Waste Management

43. The escalation of landfill tax is achieving its objective of diverting waste from landfill. Investment in
infrastructure will be essential in order to meet and exceed recycling targets. The majority of waste and
recycling infrastructure will be delivered and financed by the commercial sector. Scaling up the debt
finance available through the Green Investment Bank could help support this. In addition, restoring the
principle of revenue neutrality to the landfill tax would see tax receipts redistributed back to local areas
and commercial landfill tax receipts used to provide underpinning capital for forward thinking waste
infrastructure projects.

23 October 2014