

POLICY DEVELOPMENT WORK IN PROGRESS: NOT A STATEMENT OF
GOVERNMENT OR LGA POLICY

Economic Growth Responsibilities Workshop

Paper for Steering Group from Responsibilities Working Group

Introduction

1. The Government has announced that the business rates retention reforms must be fiscally neutral. To achieve this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match any additional funding from business rates. The responsibilities working group has been considering this area in detail.
2. At its meeting in June, the Steering Group asked the responsibilities working group to consider, in more depth, potential new services, particularly those connected with enabling economic growth through skills and public services reform. The working group reviewed this and, as was reported to the last meeting of the Steering Group, organised a workshop to look in detail at economic growth, focussing on skills, employment and welfare policy in particular.
3. In order to consider health and social care issues, a 'virtual workshop', in the form of a questionnaire seeking detailed responses, was sent to key contacts, as it was not possible to hold a workshop over the summer. A summary of the responses from this work will be tabled at the next meeting of the Steering Group.

Workshop

4. The workshop on growth, covering skills, employment and welfare, took place on 4 August, jointly coordinated by the LGA and DCLG. Over forty invited delegates attended, representing a wide geographic spread and types of councils. As well as members of the responsibilities working group, finance and policy specialists with particular expertise in these policy areas were also invited.
5. The group were asked to consider the following three key questions:
 - Identify what the role of local government should be in skills, employment and welfare
 - Identify what responsibilities (new and retained) we want to have in this area
 - Identify which of these could / should be funded through business rates
6. A summary of the day's discussions is provided in the Appendix. The following sections highlight the key points made in response to each of the three questions.

Identifying the role of local government in skills, employment and welfare

7. There was general agreement at the workshop that there would be significant benefits from increasing the role of local government through further devolution of budgets, flexibilities and freedoms in this policy area. Delegates felt that a meaningful enhancement of local government's role would enable the sector to deliver efficiency and outcome improvements through the design and commissioning of integrated solutions that are locally appropriate.
8. It was also recognised that a discussion on the employment, skills and welfare system could and should only be had within the context of public service reform. Failure to take a 'whole systems approach' would only serve to prolong a fragmented and costly system, which impacts on the services local government commissions.
9. Elements of the system considered in need of redesign and / or increased integration were employment support services provided through Job Centre, post-16 further education local responsiveness, support for those with most complex needs, and an overhaul of careers advice and guidance.

Identifying new and existing responsibilities for local government

10. The group proposed four broad policy areas for which local government should have overall responsibility.
 - Preparing people to take advantage of the education system – includes school readiness, early intervention, early years, family support, childcare.
 - Preparing people for the world of work / transitions – includes 'Raising the Participation Age' (RPA), Not in Employment Education or Training (NEET) activity, post 16 further education, careers advice and guidance (all ages).
 - Helping people reconnect with employment and learning to support progression – includes employability support, social security safety net, homelessness, troubled families, financial capability and advice.
 - Working with employers to foster business growth - includes higher skills / work with universities, employer specific innovation.
11. A lead role for local government in these areas would ensure a joined-up system, relevant to the needs of local residents and the economy. It would need to be fully funded, with freedom and flexibility to deliver services appropriate for individual areas.

Identifying responsibilities to be funded through business rates

12. The group recognised that the business rates retention consultation sought views on particular programmes and grants which could be funded through increased business rates retention. However, group members were reluctant to identify particular funding streams, given the scale of reform to the system that is required.
13. As part of the assessment of whether responsibilities should be funded through business rates, 'big ticket' employment, skills and welfare responsibilities should be mapped and assessed against the criteria for inclusion.

14. The entire skills and employment support budget would be in excess of the quantum available through increased business rates retention. Nevertheless, delegates agreed that skills funding currently paid through the Education Funding Agency for 16-18s and the Skills Funding Agency should be considered, as should careers advice and guidance (National Careers Service).

Summary

15. There was consensus amongst the participants that work to fully re-design the employment and skills system should go hand-in-hand with work on business rates retention responsibilities. This will enable local and central government to identify the elements of a re-designed system that should be funded from retained business rate retention.
16. As a consequence, this led to a reluctance amongst delegates to identify, at this stage, responsibilities within these service areas which could be funded through retained business rates and consequently those central government programmes that could be 'turned off'.
17. Delegates are eager to see this consultation as the start of joint working with central government to work towards an integrated employment and skills system. Participants felt that DCLG should play a critical part in bringing on board other lead Whitehall departments, in particular, the Department for Education (DfE), Department of Health (DH) and Department for Work and Pensions (DWP).

Recommendations

18. The Steering Group is therefore asked to consider an approach which does not finalise the responsibilities to be devolved at this stage (i.e. during the autumn, following close of the consultation), given that it is still relatively early in the process.
19. It is acknowledged that this may mean there could be a phased introduction of the new business rates retention system, allowing local authorities more time to work together on developing an integrated employment and skills approach.
20. During the workshop, a range of inter-related issues including infrastructure, housing and affordable housing capital, business growth and early years were raised. Many of these were discussed in the initial meetings of the responsibilities working group. The Steering Group is asked to consider whether any further work is needed on developing proposals for these areas to be considered for funding from increased business rates retention.

Appendix

Business Rates Retention Economic Growth Workshop, 4 August 2016

Summary of the Day

1. A general overview of the consultation was provided. This elicited two general questions on the overall approach to the full retention scheme. The first about whether fiscal neutrality had to be achieved on Day 1 of the new system or whether it was something that could be achieved over time; the second was on the quantum, and whether we should be considering taking on any new responsibilities if this money was already paying for locally delivered services.
2. Three discussion groups which were all asked to address the same set of three questions (below), with a summary of feedback.
 - Identify what the role of local government should be in skills, employment and welfare.
 - Identify what responsibilities (new and retained) we want to have in this area.
 - Identify which of these could / should be funded through Business Rates.

Question 1. Identify what the role of local government should be in skills, employment and welfare

3. There was general agreement that there would be significant benefits from increasing the role of local government through further devolution of budgets, flexibilities and freedoms in this policy area. It was felt that a meaningful enhancement of local government's role would enable the sector to deliver efficiency and outcome improvements through the design and commissioning of integrated solutions that are locally appropriate.
4. There was a firm view by all that a discussion of the employment, skills and welfare system could and should only be had within the context of public service reform. Failure to take a whole systems approach would only serve to prolong a fragmented and costly system, which impacts on the services local government commissions.
5. Elements of the system which attendees felt need redesigning and / or increased integration are employment support services provided through Job Centre Plus (JCP), post 16 further education local responsiveness, support for those with most complex needs, and an overhaul of careers advice and guidance. The 2018 expiry of JCP estate contracts was seen as a milestone. Broadly delegates felt local and central government should try to design an integrated, locally responsive employment and skills system. In this system local government would take the lead role in commissioning to bring about service integration, rather than simply taking on elements of the current system. This is consistent with LGA positions.
6. The group felt it was critical that we, central and local government and others, look at ways to create a more effective system, irrespective of how it is funded (continued grants, devolution or business rates). The debate over which responsibilities business rates should fund is an opportunity to remedy this.

Question 2. Identify what responsibilities (new and retained) we want to have in this area

7. The group came up with a broad set of areas which local government should have overall responsibility for in relation to employment, skills and welfare, and any new system redesign. This would ensure a joined up system relevant to the needs of local residents and the economy. It would need to be fully funded with freedom and flexibility to deliver.
 - Preparing people to take advantage of the education system – includes school readiness, early intervention, early years, family support, childcare.
 - Preparing people for the world of work / transitions – includes 'Raising the Participation Age', Not in Education, Employment or training (NEET) activity, post 16 further education, careers advice and guidance (all ages).
 - Helping people reconnect with employment and learning to support progression – includes employability support, social security safety net, homelessness, troubled families, financial capability and advice.
 - Working with employers to foster business growth - includes higher skills / work with universities, employer specific innovation.

Question 3. Identify which of these could / should be funded through Business Rates

8. The group recognised the time-sensitive nature of the business rates retention consultation and individual funding streams were discussed throughout the session. However they were reluctant to say 'yes' or 'no' to particular funding streams, given the scale of reform to the system that is required.
9. Instead, alongside the range of potential responsibilities (above), they suggested a set of principles, which could serve as a checklist for funding (below). These are complementary to the criteria, developed through the joint working and outlined in the consultation paper, and might usefully be applied across the full range of discussions.
 - A fundamental, non-negotiable, overarching principle that local government should have full freedom and flexibility over policy and interventions which are devolved / business rate funded, with no prescription from the centre.
 - All devolved responsibilities must form part of ongoing needs assessment.
 - Elements funded by business rates must make sense to businesses / employers and link back to economic stewardship, stability and, where possible, growth.
 - Things should not be funded from business rates retention if they are:
 - counter-cyclical
 - more efficiently or effectively funded from national taxation
 - at high risk from demographic change

- at high risk from economic shocks that cannot be easily or safely mitigated via the needs assessment
- Where there is a choice to be made on responsibilities to devolve, preference should be given to those which local government can have the biggest impact.
- Where there is an inter-relationship / dependency with Government spending and / or national policy not in scope for devolution (e.g. impact of schools on post-16), there must be a robust high level two-way outcome agreement between local areas and across Government (or other responsible agency), where agreement is sought to share risk and responsibility.
- Must be fiscally neutral **to both parties** (some proposed this should be over a period of time with, for example, initial headroom of 10 per cent to enable initial local investment in growth).
- Spatial levels – preference for combined authorities where they exist, and Local Enterprise Partnership (LEP) areas or other sub-regional groupings where they do not. Could be an outcomes argument / efficiency savings argument or both.
- Additional funding should cover administration of the transfer, in line with the New Burdens doctrine.

10. Some broad asks / principles in relation to employment, skills and welfare:

- Government must commit to full replacement funding of the European Social Fund (ESF) post-Brexit.
- There could / should be an emphasis on employer-specific innovation (with sector-specific innovation retained at the national level).
- Must be in the context of a broader discussion / lobbying on developing a more effective public employment system, which rethinks the role of JCPs.

11. Big ticket employment, skills and welfare responsibilities should be mapped and put up against the principles to be able to come to a view, given the entire skills budget outweighs the business rates pot. Despite this, there was a strong steer that Education Funding Agency (16-18 funding) and Skills Funding Agency should be on the table, as should careers advice and guidance (National Careers Service).

12. Continue to hold Government to account on both the structural and financial impacts of welfare reforms and the roll out of Universal Credit (which drives the shape and scope of the local safety net). Supported Housing and Housing Benefit admin subsidy would, for example, fit against this backdrop.