

Financial decentralisation is already happening, and Newcastle is seeing the benefits

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By Democratic Audit UK

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*It is well known that the United Kingdom state is highly centralised, with local government suffering from cumulative disempowerment since its hey-day, and facing severe financial challenges under the current Government's austerity programme. But one source of hope for the sector lies in financial decentralisation. Newcastle City Council leader **Nick Forbes** argues that it's time for Whitehall to give more financial control to our core cities.*



The Tyne Bridge (Credit: Wikimedia Commons)

Financial decentralisation isn't a policy in waiting, it's already happening, and Newcastle is already seeing the benefits. Under the City Deal, the council I lead was able to secure Tax Increment Financing for key sites around Newcastle and Gateshead city centres. This allows us to capture substantial business rate up-lift from investment, making the business case for infrastructure more viable.

We have initiated capital investment of £90 million, and could create 15,000 jobs over the next 25 years. Similar arrangements exist within Enterprise Zones, but this was agreed as part of a specific deal, and has been cash-limited by government. There is no reason why this approach can't be a model for other areas. There are also other, smaller, financial freedoms being exploited locally within Newcastle like our Business Improvement District (NE1) with businesses voting by a substantial majority to pool additional business rates to improve the city centre.

And there's our late night levy, where we use additional resources from late licenses to sustain community safety. These are good examples of where modest fiscal freedoms are being used constructively and in partnership

with local business. The Community Budget approach is an important movement towards integration of public services. It is complementary, not an alternative, to greater fiscal autonomy.

By joining up the delivery of public services, on the basis of a consistent needs assessment, we can improve the effectiveness and efficiency of the public services. Fiscal decentralisation would then allow us to invest in that model, and capture more of the benefits locally. It would add to our economic resilience, giving us real powers to encourage real growth. Some say greater financial independence would unfairly benefit London authorities who receive far more than other councils in property taxes.

But there is no reason why we can't level the playing field. My understanding is that London authorities could also forgo other government grants, becoming more self-sufficient. London boroughs – like Westminster – that secure enormous and disproportionate benefits from property taxes would also be expected to continue to contribute towards a fair distribution of resources to other authorities. Unfortunately, our experience so far is that government is more interested in short-termism and project-by-project competitive bidding, than to the longer-term programme approach which can deliver more benefits locally.

We recognise that central Government finds it hard to give up powers, but there seems to be a presumption that local authorities are incompetent unless proved otherwise. We have strong checks and balances in place, we are also highly locally transparent. Rules for prudential borrowing and external audit, as well as active democratic scrutiny, which make us the most responsible and efficient part of the public sector – much more so than central government.

As a local leader, I am very visible to the local population, and any failures are far more immediately apparent to my electorate than they are in Whitehall departments. In my authority, decisions about tens of thousands of pounds can be overseen democratically and with absolute transparency – while central government is able to waste millions (eg, on failed IT projects) without adequate checks and balances.

I recognise that some places may be able to move faster than others. And government will reasonably want to be assured about sound governance, partnerships and capacity to deliver. So we shouldn't always look for solutions which can only apply nationally. That's why the core cities have taken the responsibility to be pathfinders for this approach.

It's often presented that fiscal decentralisation and fair funding are opposites or alternatives. In fact I think we need a solution which delivers both. First of all, we need a credible starting position that reflects need. The coalition government has moved away from this position, with the unfair skewing of cuts towards more deprived areas. A new financial settlement that locked in this unfairness would not be acceptable.

That's why I and others have made the case for an independent review of the allocation of local government funding, to re-establish the principle of resource equalisation. Once that fair baseline is in place, councils such as my own would be prepared to take on substantially more local risk and responsibility in order to secure the benefits of growth, including responsibility for local property-based taxation as proposed by the London Finance Commission.

But it's important to stress that the current system is completely broken, and fiscal decentralisation needs to be accompanied by other measures that re-build fairness and confidence into the system.

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