



Communities and Local Government Committee

Oral evidence: [Fiscal devolution to cities and city regions](#), HC 1018

Monday 24 March 2014

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Written evidence from witnesses:

Panel 1 (Questions 364-413)

[Local Government Association](#)

Panel 2 (Questions 414-442)

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Watch the session

Members present: Mr Clive Betts (Chair); Bob Blackman; Simon Danczuk; Mrs Mary Glendon; Mark Pawsey; John Pugh; John Stevenson; and Heather Wheeler

Panel 1 Questions [364-413]

Witnesses: **Councillor Sir Merrick Cockell**, Chairman, Local Government Association, gave evidence.

Chair: Welcome to our sixth evidence session on fiscal devolution to cities and city regions. Just before we begin the session, could I ask members to put on record their interests? I am Vice President of the Local Government Association.

Mrs Glendon: My husband is a councillor in North Tyneside, and one of the councillors also works in my office.

John Pugh: I have a member of staff who is a councillor.

Q364 Chair: Simon Danczuk and Heather Wheeler are coming back. They have had to go to other things that Parliament requires them to attend this afternoon, but they are coming back to our session. They have already put on record their interests at a previous session so we can take that as read for this occasion.

Merrick, thank you very much for coming in. Just for our records, could you say who you are and your position within the organisation?

Cllr Sir Merrick Cockell: I am Councillor Sir Merrick Cockell, and I am Chairman of the Local Government Association.

Q365 Chair: Thank you very much for coming in on this important subject, so that we can hear the LGA's views on it. The Committee has already had evidence from the Core Cities, the Key Cities and the county councils, who all seem to be arguing their own particular position. It looks a bit as though the Local Government Association has taken a step back and is saying, "You get on it and fight your own case. We will support from the wings as and when necessary." Is that fair?

Cllr Sir Merrick Cockell: You will forgive me if I do not quite see it like that.

Chair: Right, exactly. That is what you are here for.

Cllr Sir Merrick Cockell: No, but what we have been clear about—and I have been clear about—is that we cannot be the only voice that makes the case for fiscal powers being passed down to local levels. Therefore we are very keen to hear anybody talking about this in a positive way.

Just for clarity, the LGA represents over 400 councils and bodies, such as fire authorities and national parks authorities. We will not know quite until the end of this financial year but I think all authorities, bar maybe four or five at the most, will be members of the LGA. I have travelled the country a lot, focusing on the discussion and debate we are having this afternoon, and I hear nuances, which is fine—differences between particular areas, geographic and groupings—but the fundamentals are very similar whether you are talking, as you have done, to cities, counties or other such groupings.

Q366 Chair: Do you see the possibility that devolution may happen at a different speed or in a different way in a major city or city region compared with a county? Does the LGA recognise that that is likely to happen? Is it able to oversee a process of devolution recognising that

and to keep happy those areas that may not get devolution at first instance?

Cllr Sir Merrick Cockell: Certainly we would like Government to let local government go at its own speed but to make it clear that the freedoms and the opportunities are there, moving away from that “earned autonomy” idea to, “This is what is available and you go at your own speed”. There are different speeds already, as you are well familiar with. There are various parts of the country—not only cities—that have combined authorities or other structures in place, and they have done that very often of their own free will without having to necessarily ask Government to do it. They may have got further freedoms through the process, but we are used to an imperfectly designed and imperfectly operating set of local government structures and we can cope well with that. What we do see is that clearly other groupings are attracted by the leaders, you might say: those who have gone first, whether it is AGMA—Greater Manchester—Tri-borough or whatever. You now see a whole swathe of different areas coming forward with combined authorities or other such groupings, so we can cope with the different timescales.

Q367 Chair: Is the LGA’s position basically to support authorities and areas moving at a pace towards devolution that they want to move at, and generally supportive of powers being devolved?

Cllr Sir Merrick Cockell: Supporting our members but also, frankly, making the case that only we can make: that this does not only apply to cities—I realise you are particularly looking at cities—but it applies to cities and the areas around and, indeed, as you have heard from county councils, that there should be arrangements for those counties, or other such groupings that want to come together and make those sorts of proposals. That should be available to them, as economic areas, just as much as it is available to cities and city regions.

Q368 Mrs Glindon: Sir Merrick, what evidence is there that local areas are ready to take on fiscal devolution?

Cllr Sir Merrick Cockell: What you see is a whole variety of different arrangements in place already, according to local needs. That is at the core of everything we talk about; this has to come from the needs of local areas and those areas looking to solve them themselves.

You will have heard from London the different arrangements. You will see authorities that have set up new technical colleges, that are bringing in investors from around the world, and that are redeveloping industrial sites, let alone AGMA, the Greater Manchester arrangements, which are at the forefront with not only other city bids coming through

but also the structures supporting those as well. As I said in my previous answer, this is without asking or needing to ask the approval of Government. This is local authorities working out for themselves different ways of operating.

Q369 Mrs Glindon: Who should decide whether an area is ready for fiscal devolution or not?

Cllr Sir Merrick Cockell: I think those areas should decide. What we have seen through all Governments of all political parties is the testing of various models. We have been very happily part of that, and our members have been part of that—with community budgets, for instance, looking at what that might tell us. In the case of community budgets, it tells us an interesting story: that if you trust areas and you break down those barriers, according to Ernst & Young's independent analysis, we could be saving between £4.2 billion and £7.9 billion a year. That is what the evidence tells us.

We have practical experience but the LGA would be saying that we pretty well know the answer, and Government knows the answer through many schemes as well; the principles behind Troubled Families are the principles behind how you would operate community budgets and whole-place budgets and so on. Right the way through, there is a commonality to the message: "Break down those barriers, pool budgets, share stuff", and all those sorts of things.

We would say it is time to stop piloting and to accept that this is the way forward. Government should let that happen. Local authorities or groupings, whether a combined authority or whatever, should not need to go as supplicants continually to Government for the fiscal changes. These should be available for local areas to come together and put their case, and for it then to happen pretty well automatically. I am sure Government would require you to fulfil certain criteria to show that you can work effectively together, or whatever it may be, but then, rather than having to go through an endless bidding process, it should simply become the norm for those areas. It will be the outliers who go first and are already going first and then, in time, the whole of local government will see that, make the necessary arrangements and reorganise themselves in many ways.

Q370 Mrs Glindon: So it would be local politicians and local councillors given the blessing and support of the LGA. Where would you envisage the people having a say in what happens to their areas? Would that come further down from just the politicians?

Cllr Sir Merrick Cockell: You mean the voters?

Mrs Glindon: Yes.

Cllr Sir Merrick Cockell: Voters have a say in what happens in their area through the ballot box and that already exists. If you are pooling some of that power and Government is letting go and allowing areas to have far more control of not only spend but also taxation, then clearly local people will have a say through the ballot box.

If you look at, for instance, the model of a combined authority, each of the 10 Greater Manchester authorities is represented generally by their leader on the combined authority. So although there is not a direct election for a combined authority, those leaders are bringing their council with them. That is a very positive way of doing it. An alternative model might be a directly elected strategic authority. If that is right for a local area, I would say that is fine, if it is their decision that that is the best approach. However, generally that idea of taking your local authority voluntarily into a combined authority, or whatever the mechanism may be, is a very positive one because there you have the leader having to work with his or her councillors but to bring the authority with them when they work collectively in a city region or wherever it may be.

Q371 Mrs Glindon: Could you say why the Government should be persuaded by the LGA's projections and estimated potential savings to hand over control of billions of pounds in property tax yield?

Cllr Sir Merrick Cockell: The answer to that is: is the current system working effectively? Is the current system better than any other alternative? What we would say is that, through the evidence I have quoted in the past but also through experience, we can actually show to Government that, while national Government has a legitimacy to see its policies implemented, local arrangements can help to do that more effectively.

We have seen that in training, for instance with the national Youth Contract. Generally it has helped about 27% of 16 and 17 year olds to get into work or learning when operated as a national scheme. There are two groupings of areas—one is Leeds, Bradford and Wakefield; the other is Newcastle and Gateshead—where that has been passed to local arrangements through the councils. The performance in the Yorkshire configuration has been, instead of 27%, 57%, and in the Tyneside configuration, 47%. For all intents and purposes, twice the outcomes have been as a result of it being run locally rather than it being run nationally. We can point to many examples if any government has the will to pass those powers, let alone looking at international comparators.

Q372 Chair: Is there not a fundamental difference between what has been asked for here, which is the transfer of fiscal powers—devolution of fiscal arrangements on a massive scale in terms of the combined current spend of local authorities—and devolution of powers where you can point to community budgets and say, “We have had pilots and it is tested. We can show that it works.” The fiscal devolution is in a different league, is it not? It is a bit like a step into the dark that you asking government to take?

Cllr Sir Merrick Cockell: Government has done it willingly with Scotland and is now doing it with Wales without the need for a referendum. The Prime Minister and the Deputy Prime Minister have talked very clearly about Wales, saying that Wales has been held back by the hand of Whitehall. I think I have paraphrased what the Prime Minister might have said but that was the message. I think he said if the decision-making had been in Cardiff Bay, Wales would economically have been doing better today than it currently is. What we would say, representing English local government, is, “Why is it different for Wales than for any parts of England?”

Clearly these are big steps but they have worked effectively in Scotland. Whatever the result of the referendum, I have no doubt that if Scotland stays within the union there will be more fiscal powers passed to Scotland. We know from the Bill, only last week, for Wales there clearly is an offer of business rates and what they are calling devolved taxes, which are a land tax and a land fill tax. Then, should there be a referendum in Wales, even income tax could be devolved down to them. So the principle has been established.

Q373 Chair: So the LGA is incredibly frustrated, then, is it, that there seems to be cross-party support to give Scotland power to vary income tax, let alone anything else, whereas in England there seems to be cross-party support that local councils have to have a referendum to increase council tax by more than 2%?

Cllr Sir Merrick Cockell: Certainly we think—as I know others do who have given evidence—that the local authorities should make their case to those who elect them. It gives a good reason for people to bother to vote. It is a poor percentage of people that vote at local elections, and if we were accountable and making those decisions on benefits, council tax and how you could flex council tax, and looking at business rates, which we may well be talking about in a minute, these seem to be decisions that should be made locally, and people who take those decisions should be held accountable through the ballot box rather than through a referendum mechanism.

Q374 John Pugh: Can we talk about equalisation or redistribution? The LGA thinks that the principles on which redistribution should take place can result from local government acting collectively. There might be some scepticism about that given that relatively recently there were several different local authority associations. Do you think they can? Do you think local government can come to a harmonious conclusion on this, given that there will be some people who perceive themselves as winners and others who will perceive themselves as losers? The second part of the question is whether, if you could, the Treasury would simply accept it or would it want to come up with some formula of its own.

Cllr Sir Merrick Cockell: Shortly you will take evidence from Rob Whiteman from CIPFA and, as you are aware, we are doing a joint local government finance commission with them that I think may well be looking at how equalisation or the settlement could be allocated between various authorities within the country.

The starting point is that now we have transparency about how we spend public money. So those who are interested can follow that and most of it is easily accessible now. What nobody can understand, including those running finance in local government, is how we are funded. That is an impenetrable, inexplicable story. So one authority cannot really explain how their grant settlement has been reached and certainly when they look to their neighbour it is certainly not clear, and they can share many of the same circumstances—geography, demographics and things like that.

Q375 John Pugh: Is that not the principle behind the lobbying that local government does at budget time? They try to probe into why they have been awarded in the way they have, and there is a running assumption that there is some kind of principle that could be understood, even if it is a bit like the Schleswig-Holstein question.

Cllr Sir Merrick Cockell: It is not a bad start to think that it is possible to explain to a voter how local public services are funded. You talk about lobbying. This is all lobbying after the event, is it not? Our settlement is given now, days before Christmas, with a referendum level not known until months later. Then under all governments—and I have been part of it—the poor junior Minister in CLG has to have six weeks of council leaders, one after the other, coming to complain, but most of us really knowing that, unless there has been some real anomaly, nothing is going to change. That does not seem effective lobbying.

Part of this is about where we start on this. The context would be a multi-year settlement with Government for our funding, allowing that you cannot predict whether economies are going to have difficulties or

world conditions or things like that. However, broadly, as in places like Denmark, to negotiate—that is an important element—a multi-year agreement, it seems to us that Government has to get something out of that. Frankly, to remove from Ministers that stream of leaders going in to complain about how badly they have been treated and the sector taking on that role—I am quite sure Treasury would come forward with ideas about how that might operate. It might well operate as an independent structure with no doubt elected members from local government, perhaps Government involved as well, and maybe outsiders also, who would construct the formula and look at the ways in which it actually operated, so that it could be explained. Government would have a legitimate role in saying they had priorities and being able to feed that funding into that independent structure for equalisation. However, at least we would understand what the pressures were, what decisions had been taken to prioritise particular sectors, particular parts of the country, or particular need, but that would be clear, whilst today it is entirely impenetrable.

Q376 John Pugh: Leeds City Council suggested an independent commission. Do you think there is merit in that to redistribute central Government funding?

Cllr Sir Merrick Cockell: Personally I do not think an unelected quango—it may be made up of the great and good—would work. In the end, those who are elected have to decide these matters. However you construct the structure, having elected people from local government and Parliament being part of it would seem to be how ultimately the decision should be taken, rather than handing it lock, stock and barrel to a group of very wise experienced people who are unaccountable through the ballot box.

Q377 John Pugh: The LGA said of fiscal devolution that it would require a willingness from local leaders to “manage volatility in tax yield and a fair re-distribution between areas”. I assume this is an ongoing thing because you have to forefend against maybe a sudden collapse in the business rate, if they have a couple of very large employers that suddenly go out of business and dramatically affect the take that the council would have. What are your thoughts on that? You talk about a three-year settlement, was it?

Cllr Sir Merrick Cockell: No, we were saying a full parliament so negotiation in year one and a remaining four years.

Q378 John Pugh: Within that there would be a need for not a renegotiation but some adjustment to circumstance. How would that happen?

Cllr Sir Merrick Cockell: I do not have the answer of how we would do it, but as part of that settlement we would have to not only be able to cope with the British economy, as I referred to earlier, but also local conditions and needs changing within the newly constructed settlement of equalisation, which could be major employers leaving an area, or indeed new investment coming in with perhaps disproportionate benefit.

Much of this would be predicated on business rates being part of those fiscal freedoms, rather than the current very narrow range of taxation that we have within any sort of control at the moment.

Q379 John Pugh: Brandon Lewis said somewhere that local authorities are becoming ever more autonomous. There is a distinction, is there not, between being autonomous and being effective on your own behalf? If you have control of your resources but only control of diminishing resources, you do not necessarily become more effective, do you? What do you think of this line or rhetoric: that local government is happily travelling in a direction that is making it ever more autonomous?

Cllr Sir Merrick Cockell: I am sure he would be able to quote plenty of evidence that that is the case and point to that being the direction of travel.

Q380 John Pugh: Does autonomy mean that there is no equalisation formula? That is a thing that is decided centrally, is it not?

Cllr Sir Merrick Cockell: Yes, but you can only go so far with this autonomy before you come against the fact that autonomy is great if it is only about spend.

John Pugh: Qualified autonomy.

Cllr Sir Merrick Cockell: The real ability to do things is controlled by your ability to tax or borrow. If that is held centrally there is only so far you can ever go. To go back to the earlier point, if it is good enough for Scotland and good enough for Wales, why is it not good enough for London, Manchester, Sheffield or any other part that you may represent, or indeed, Cornwall, Essex or any of the other areas that can make a case that they should be given similar sorts of devolution?

Q381 John Stevenson: If we take the fact that fiscal devolution is to happen—so it has been agreed in principle and it is going to happen—

how do you think the governance of the areas that are going to receive that fiscal devolution should be restructured?

Cllr Sir Merrick Cockell: Clearly it is unrealistic to think there will be fiscal devolution to 400-odd local authorities. Knowing that that is the mood of a government and that is the clear direction, then I certainly do not think a model where others decide what your region is or what grouping you should be part of would work; it would be a recipe for disaster. Frankly we can point to endless evidence in the past where that has not worked.

What we have seen in recent years, where areas have had to work out their relationships, sometimes it is through LEPs and those have ended up in some places as extremely overcomplicated because places have to look in two or three different directions. I am sure that some of that could be sorted out, but otherwise areas have had to work out how they work with their neighbours and those further away. They have done that effectively and we are seeing that through the latest sets of bids but also through the new groups of combined authorities. They have realised that that is the way we have to operate in future, and they have begun to turn that into reality and think about, in practical terms, what that means when—

Q382 John Stevenson: What you are saying is that we should not have some sort of big-bang restructuring of local government? It should just happen almost naturally? What Government should be doing is looking for those areas that have developed new local government structures effectively?

Cllr Sir Merrick Cockell: All of us, if we were creating a new country, would have a wonderful model of how local government should operate, but it has evolved over a long period and we know it is a patchwork quilt. I realise some people like the idea of uniformity and tidiness, but the disarray and, frankly, the inward-lookingness that would arise from a big-bang “Let us reorganise local government” would be entirely counterproductive.

Q383 John Stevenson: I understand where your argument is going. On that basis, if you had combined authorities, for example—you touched earlier upon how they have democratic accountability via the leader—that is, to all intents and purposes, indirect democracy. Do you not think that we are entitled to direct democracy and that any new authority, such as a combined authority, should be directly elected?

Cllr Sir Merrick Cockell: I touched on whether, in a combined authority, that might be another model, and we are keen to say that an

area should be able to decide what the right arrangement for their area is. It might be in a county area—I use “county” in the geographic sense, rather than the tier—that you could make a very good argument that the county councillors could be that directly elected strategic authority, probably with less members than they currently have, and that the districts would continue as the local council; I do not quite mean the London model but a similar idea. We have so many varieties; we have unitary counties and traditional two-tier counties. There are already such different arrangements. Why should it not be possible for a given area to say, “We would like that much smaller strategic authority directly elected and then we would like a different arrangement at a second-tier local level”?

Q384 John Stevenson: Do you think the London model has merit in being used in, say, Manchester, Leeds or Birmingham? Could it be a template for structure?

Cllr Sir Merrick Cockell: You would have to have reorganisation. In Manchester you have the 10 councils, so it might be easier to have that sort of model. In Greater Birmingham it would be far more complicated because you have one very large city council; you would probably have to create the equivalent of boroughs. Again, that focuses attention and effort in the wrong direction, when a lot of the benefits of this can be achieved by experienced, sensible people in local government. Broadly, we have plenty of evidence that we have strong leadership in local government, and those leaders and authorities are voluntarily chaining themselves because they see the benefit of doing that, which with fiscal devolution would be clearly out there for the asking.

Q385 John Stevenson: Fiscal devolution is a really serious potential change, and needs an awful lot of responsibility. You have hinted at the outset that smaller authorities may not be able, necessarily, to cope with that. Is there, therefore, some merit that we go to unitary authorities right across the country and slightly larger authorities?

Cllr Sir Merrick Cockell: I still do not change my view that a reorganisation that is unwanted at a local level focuses the attention for far too long and, frankly, the evidence is that it costs a lot of money. The reality of fiscal devolution is that councils will have to group together to get those benefits to represent economic areas. The powers will not be handed down to individual councils unless they are of the size of a single authority in a city. They are going to have to make their arrangements so that it is possible to receive those powers.

Q386 John Stevenson: Do you think, therefore, the LGA is in a difficult position, because you are trying to represent so many different and diverse councils and, in actual fact, from what you have said to me, you have no real idea of what sort of structure should be put in place if this devolution is to happen?

Cllr Sir Merrick Cockell: No, I think the LGA, as an organisation, has moved on quite a long way in that we can represent the whole of local government and not simply think that we cannot talk about tiers and different arrangements because it is all too toxic. Most people in local government realise that in 10 years' time, it will be very different.

Q387 John Stevenson: Should you not be the agent of that change rather than just following along behind? If I was a Treasury Minister, about to hand serious tax-raising powers down to the local government, I would want to know that there is a robust structure in place and that such an organisation like the LGA is coming up with some serious ideas, rather than saying, "We will just leave it up to the local area to come up with their own ideas".

Cllr Sir Merrick Cockell: We have the basis of the structure already, do we not? We have groupings in London. We have the combined authorities. We have other structures coming together. They are there; they are already carrying out power, holding power, running large budgets, sharing the sovereignty and speaking for their areas. Scotland is different from Wales; why does one need a simple blueprint that you apply systematically through?

Q388 John Stevenson: Yes, but it is quite clear that they are capable of taking on board fiscal powers. What I am suggesting to you is that some parts of English local government are capable but it is quite clear that other parts possibly are not.

Cllr Sir Merrick Cockell: I agreed with the Chairman's question at the beginning that there will be different speeds. We cannot expect everybody to do this in two years' time. If there is a clear understanding that, "These powers are coming your way; sort yourself out," then my belief is that local government will move itself into the right configurations to receive those powers.

Q389 John Stevenson: So you think, therefore, that local government will not sort itself out properly until such time as it knows fiscal powers are coming its way?

Cllr Sir Merrick Cockell: If any government is silent on whether they are going to pass fiscal powers down to local areas, you will

reorganise yourselves into the current sort of arrangements that we are seeing, with endless bid systems, City Deals and so on and so forth. A fundamental shift in power would be a clear driver for change.

Q390 Chair: What role does the LGA play, say, in the Sheffield city region, where you have had almost the ridiculous situation where certain districts—five districts in Nottinghamshire and Derbyshire—want to join the city region? The city region clearly has an important role to play in transport planning, strategy and funding. Yet the transport authority for those districts is actually Derbyshire and Nottinghamshire counties, which are not formal members of the city region. Has the LGA got any responsibility to try to sort that type of problem out—to create a clear structure?

Cllr Sir Merrick Cockell: We have a responsibility to make it clear, as we do, to Government that it is within their power to sort out some of these difficulties. You particularly talked about the difficulties of district areas within a city region like Sheffield, but there is also the problem that Leeds has had in its proposals to set up a £1 billion transport fund; that was a legitimate choice that the Leeds grouping decided to do and then found that that came up against the referendum cap. Therefore they could not start to put together the £1 billion to invest in transport in Leeds.

This is not within the LGA's power to change things. This is actually in the Government's power to make it easier and possible for combined authorities and other such structures to begin to have these sorts of powers.

Q391 Bob Blackman: I am going to go on to some questions about business rates, as you might have expected. Before we do, on the previous area of governance, in your evidence you refer to the roles of MPs in some form of area structures. Could you give us the LGA view on what those powers and structures would look like?

Cllr Sir Merrick Cockell: As you are aware, we suggested that in our *Rewiring Public Services* document that we launched in July. Since then, I think every MP I have met has, in fairly strong terms, objected to that idea, so for the LGA to suggest how it might operate—

We were raising the question, as much as anything, of: under new arrangements, do we and Parliament have to rethink the role of Members of Parliament within that? Are you just there to hold those new bodies to account? The Centre for Public Scrutiny has put forward an idea that personally I think is an interesting one, which is the equivalent of a local public accounts committee. That would be following all public money spent in local services in an area—not just

the councils; the council would be part of it, but so would health, policing, training, DWP and all those sorts of things. Within that hypothetical structure, might MPs have a role? Might they have an observer status that they could attend that PAC and give their input, whatever it may be? So it is more that we do not have an answer but it is a question of whether MPs have to rethink how they might fit within, for instance, a city-wide governance structure where they need to think beyond their constituency.

Q392 Bob Blackman: I was just interested because, I think, not only would MPs have a concern but borough leaders might have a concern if MPs were overseeing their budgets.

Let us move on to business rates. From your earlier evidence, can I just be clear of the LGA position on national business rates? Should business rates be set nationally or should they be varied according to local authorities' decisions?

Cllr Sir Merrick Cockell: Clearly business rates are, as you say, set nationally, and to set their entirety locally would be an enormous step. The work we have done suggests that, were a government interested—and I think it is one of our answers—local authorities could become self-financing in about four or five years' time.

Q393 Bob Blackman: I will come on to that in a minute but one of the clear concerns is that the Treasury would be saying, "If you give the opportunity for every local authority in the country to set their own business rates, how do we control the cost to business, for example?"

Cllr Sir Merrick Cockell: Yes, and the cost to the Treasury as well. Clearly within that agreement we have talked about—that new arrangement on funding—as the business rate taxation rose you would have to have the Treasury reducing the amount of funding they were putting into that centralised settlement that was then being equalised or shared out under the new arrangements. So that would be in one respect.

On the setting of the level, the principle of business rates being set beyond individual council level but at area level is a perfectly reasonable one, because what we have with local public services at the moment is that we engage with our voters—with citizens who pay council tax. We do not have that engagement with our business community. Through the share of the business rate that we get at the moment, there should be an increasing relationship with businesses because, frankly, they are helping to pay for us.

We may not achieve it quickly, but it is perfectly reasonable, say, if we took London, that London should have a relationship—probably led by

the Mayor of London but with the boroughs and London businesses as well—on the level of business rate, what London businesses would get out of it and whether London would wish to attract particular businesses through favourable business rates or indeed penalise particular types of business in other ways as well. You would be saying to areas that they would have that ability, not only to look at engaging with the council tax payer but with the business rate payer as well.

That might not be achievable in the short term but what might be achievable—and in all this you have to allow for equalisation and moving large business rate takes between the City of Westminster and other parts of the country—is you might have a percentage change. You might allow, as you do with BIDs—the business improvement districts—very small variations and increases in business rates to be decided locally. Areas might be able to save 5% either way, and that would be down to those areas to work with local businesses to agree what was right and how that money was being invested.

Q394 Bob Blackman: So is the LGA's position that 100% of business rates should be retained by a local authority?

Cllr Sir Merrick Cockell: We can make a case. We can say that would be where we think we should end up, in a similar way to council tax, but we are realistic that that is unlikely to happen overnight.

Q395 Bob Blackman: Clearly one of the arguments the Government put forward is that there is a massive advantage to councils, such as Westminster or K and C, where there is large-scale business rate income at the moment compared to other local authorities that do not have such inbuilt advantages. So you will get a position where presumably the income will be going up dramatically for those authorities with business rate income and down for those without it. How do you square that circle?

Cllr Sir Merrick Cockell: That would be back to that structure we talked about earlier. If local government funding, whether it was an independent body or whatever it may be, was done, that would be part of the pot that was being distributed around the country according to a rather clearer, more transparent formula. Clearly, as part of that, as happens now, money would go from parts of the country that have vast surpluses on business rates. That is something that when I was the leader of Kensington and Chelsea I was committed to, and leaders of Westminster and others, particularly in central London, are absolutely committed to. They would not possibly think they could hold on to business rates. That would have to be shared appropriately with the rest of the country but that would be part of that new formula.

Q396 Bob Blackman: The other issue is the timing of all this. Clearly some authorities will be ready for fiscal devolution and others will not be. If we are going to get a position of devolving council tax, business rates and fiscal devolution, authorities are going to move at different times, are they not? What is the impact of that on the transfer of business rates to local authorities?

Cllr Sir Merrick Cockell: We would have to look very carefully at how it was brought in. As you say, the various groupings of local authorities will have to move at different speeds; some may have the skills already. One would expect Treasury to be offering some of their skills into this new system and helping to make it work at a local level. You have had the Mayor of London here already, and I think you have had Sir Richard Leese and others speaking for Greater Manchester, but I am sure they could see themselves being able, in a pretty short time, to handle that. Government looking to the major cities of the country as being the starting point for such a policy would be reasonable.

Q397 Bob Blackman: How do you then address the issue that those areas that are seen to be ready to go and do this, go off and become autonomous? How do you divide the spoils up for those who are not? Where is the incentive to actually get ready and be at the forefront of all this?

Cllr Sir Merrick Cockell: I do not come to you with all parts of a five or 10-year plan on how we get from where we are now to that perfection. A part of the local finance commission's work is to see how that might actually work; I am not just trying to avoid the question. I have no doubt that it could be in a gradual staged process because, as you say, if you took out London from the equation and the equalisation, and you let London do things for itself, there could be risks to the rest of the economy. You would have to do this carefully and think it through. The lead does have to come from Government saying, "That is the direction of travel. This is where we want to go. How do we make it work safely, sensibly and to give that local autonomy?"

Q398 Bob Blackman: Is there not a risk here that London, Birmingham and other cities that may be ready to do this forge ahead but then Government is going to say, "Hang on; wait a minute. Not everyone is ready"? We have to have these checks and balances and the financial benefits of autonomy may not necessarily be there for the cities, because Government will be clawing money back to say, "We have to use that for these other people who are unfortunately are not ready to do what you are ready to do".

Cllr Sir Merrick Cockell: Yes, that is back to where we are currently, which is that every single step has to be negotiated and as

supplicants relatively to Government to ask permission, "Can we go to the next stage?" We know, from evidence that we, the BBC, Ipsos MORI and others have done, that people trust decisions taken closer to them. If that was the mood of a future government, saying that people trust 79% of decisions taken closest to them; 11% decisions taken in Whitehall, that is the new devolved model that we are going to be working on. Government would then be helping that process and not looking at it as a way of holding up that process.

Q399 Simon Danczuk: I have a quick question in relation to business rates. You were saying that the vision was to get it to a point where a local authority is collecting 100% of its own business rates and setting it at an amount that they thought was appropriate. In terms of the valuation for business rates, that is done by a national agency that compares rents right across the United Kingdom. How would that be done under your model?

Cllr Sir Merrick Cockell: I do not have a simple answer to that but the system that we are talking about would be operable within the current valuation. I do not think we are saying that we would want to do the valuation. There are lots of arguments about timings of valuations and things like that; there is no need to head in those directions. I am sure we could create a system that operated within the current national body working out the rateable value of businesses.

Q400 Simon Danczuk: There would be no multiplier applied, would there, because that is the problem that is occurring now? As you said, the revaluation has not taken place, so you have businesses in Rochdale supplementing business rates for businesses in Regent Street in London, unfairly. That would not apply, would it, under your new model? There would not be that adjustment or anything when the valuation has been carried out.

Cllr Sir Merrick Cockell: I guess it would unless there was a change to the way the current system is operating.

Q401 Simon Danczuk: The public watching this will think it is exceptionally confusing and it is almost impossible to get to this vision that you have for 100% business rates collected and set locally?

Cllr Sir Merrick Cockell: We are a bit at the problem I identified earlier of trying to explain how business rates operate, let alone how local government fund it.

For those who may be watching from elsewhere, looking across the world to other major cities across the Atlantic or elsewhere in Europe, what they would think was entirely reasonable is that taxation—whether it was from individuals or businesses in those areas or indeed other forms of taxation—was under the oversight of that city or area. That would seem, for most people, a perfectly sensible way of operating large cities. It works very effectively across the world. The fact that we have a very centralised state, where we have only limited control over how we spend money, let alone how we raise it, most people would think is fairly perverse. They would think that an area, not only cities, being in control of its spend, as well as how that money is raised, is probably going to end up a better-run area and getting more value for that public money, which obviously must be at the very centre of our consideration: can we get more economic and social value from the limited amount of public money that is going to be there?

Q402 Chair: Is the problem not that if you gave the power for each local authority to be able to keep the business rate and council tax it raised, if you look at what is available for local councils at present it is literally the yield from council tax and business rate; it is nothing else. There is not actually any money left for equalisation.

Cllr Sir Merrick Cockell: I have not said that every council keeps the business rate that it raises. I answered Mr Blackman's question quoting Kensington and Chelsea and Westminster.

Q403 Chair: That is what the London Finance Commission is saying.

Cllr Sir Merrick Cockell: The London Finance Commission is saying that it should stay within London.

Q404 Chair: The Core Cities are saying it as well. They are all signed up to the principle with business rates that you start off from a given position where there is an element of equalisation and redistribution built in, but from then onwards the extra growth in those taxes—in business rate and other taxes—is retained by the authority that grows those taxes. There is no new money for equalisation in that system, is there?

Cllr Sir Merrick Cockell: What I understood, certainly with London, is that it would be equalised within the city.

Q405 Chair: It would move within London, yes. So London, as a whole, has more ability but there is no national pot for more equalisation?

Cllr Sir Merrick Cockell: London can make its case and Core Cities will make their case. Our case is that overall there is a balance, and if you look four years hence, overall in local government we could be self-sufficient, but that would require equalisation.

Q406 Chair: Has the LGA therefore looked at a situation where it is also calling for the reform of public services—we talked a bit about that—and whether, when you are looking at the whole local government finance arrangements, you look at the bigger pots of money that are being spent at local level, but not within the control of local government? Could that create a situation where you could devolve the keeping of business rates and other taxes, as well as having money for equalisation, because there is more money in the total pot if you start to look at that wider financial arrangement. Is that something you are going to look at with your commission that you have set up?

Cllr Sir Merrick Cockell: It is a joint commission, so I will let Rob Whiteman talk, perhaps better than I can, about what the actual work programme might be. Certainly we are not simply looking at local government finance; it is local public services finance. So we have to look beyond simply that. What funds council activities is how our local public services are funded.

Chair: I will pursue that point later on as well.

Q407 John Pugh: On to housing, a very sensible proposal was put forward with regard to the financing of new housing supply where the LGA finds the limitations more onerous than they ought to be. The Government rejected the supplications from the LGA on the grounds that austerity was going on and you might be reckless or whatever. I thought that that was a fairly strong case. Do you think the case remains strong and do you think you can convince Government?

Cllr Sir Merrick Cockell: About removal of the cap?

John Pugh: Yes.

Cllr Sir Merrick Cockell: Government have already moved. Treasury has moved a bit in that direction already in the Autumn Statement. So we think they have accepted that we can—I cannot remember exactly what the word was, but the hint was that we might go mad and borrow more money than we could afford to repay. There is no evidence to support that argument. The prudential code we have operated very effectively; we have to. We can only borrow money that we can show we have the ability to repay appropriately. Some research has been done by Capital Economics into the impact of lifting

the cap, and the belief is that if we lifted the cap, we are talking about £7 billion over five years. They believe that that is not going to have any impact on the market—that somehow the world would take a different view of the national economy on the back of that. It is the area of statistical error within public borrowing.

Q408 John Pugh: By presenting the Government with good evidence you will eventually give them the reassurance they want.

Cllr Sir Merrick Cockell: We can give them the reassurance, but the evidence is there that we are good at prudent and careful borrowing and repaying our debt. No council has ever reneged on its commitments. Important in housing is that what we are talking about is not some sort of old model of council housing and that pejorative term, really. We discussed it at the LGA Executive last week, and councils from all over the country and regions were represented, of all different politics, talking in very different ways about what they see council housing as being, which are various tenures—some might well be for sale, not simply for rent; some may be intermediate and some may be shared ownership. The model would be very different to what we have talked about traditionally.

Q409 John Pugh: Can I ask you about municipal bonds? Clearly they have all sorts of advantages over and above instruments like PFI and so on, but do they have any real advantage over the Public Works Loan Board? Because I have often heard municipals bonds spoken about but I am yet to be offered one.

Cllr Sir Merrick Cockell: That could well be in about a year's time. Again, we have done a lot of work on this, and the business case has been revisited, and was agreed at our Executive last week. We are now looking to our members to put equity into setting up a bond agency. I think the document is probably available now.

We can show that the benefit is that our members can borrow money cheaper than they could borrow the money through the Public Works Loan Board—not perhaps in the first bond issue because you clearly have to build a reputation. How we reach that is clearly shown in the business case. Fundamentally it comes from the bond agency getting a triple A rating, being a very small and tightly run organisation, and that coming through to the cost of borrowing, subject always, of course, to the fact that the Public Works Loan Board can set its own rate.

Q410 John Pugh: When we went to Manchester we looked at and discussed, the “earn back” system. What is your view on that? Do you think that it has any limitations? It is largely a transport-based scheme, is it not?

Cllr Sir Merrick Cockell: Clearly “earn back” is part of a journey, you might say. It is a move in the right direction but it is not what we have been talking about and what we believe—I called it earlier a sort of earned autonomy. We have to shift to a presumption in favour of that, rather than sometimes quite complicated deals around particular sources of money being used for particular future investment. I touched on the problem in Leeds, with Leeds wanting to make a substantial investment but being prevented by the referendum cap from actually being able to do that. That was a decision freely entered into by the representatives of the wider Leeds councils, and now they are stuck.

Q411 John Pugh: You accept that with municipal bonds, “earn back” and the increased liberalisation of borrowing, there is a risk that ultimately some scheme will go horribly wrong—for example, Liverpool’s tram scheme—and you are perfectly comfortable with the thought that the local rate payers or local council tax payers bear all the burden.

Cllr Sir Merrick Cockell: In the end the tax payer stands ultimately behind. One of the things about the municipal bonds agency is that not every council could be a member of it. You would have to show very high financial standards, and one of the benefits of the bond agency, as a public interest, is that it will raise the bar and make those local authorities that want to be part of it have to do a different form of financial reporting. That will be very positive for the sector and probably for the governance of the country overall. The advice we have received through the business case is perhaps some surprise at the relative ease with which money can be borrowed via the Public Works Loan Board with the sort of reporting being very different to that in the private sector. Introducing those private sector expectations to the public sector would be a real benefit.

Q412 John Pugh: It strikes me that the risks may not be any more obvious or upfront than, say, for example, current aspects of local authority treasury management. People have sat there and depended, for example, on Icelandic investments in the past that have gone wrong. Do you see the liberalisation processes increasing risk or is it basically the same level of risk but different things being done?

Cllr Sir Merrick Cockell: As you have brought in Iceland, it is worth pointing out that, through a lot of the work done by the LGA, 90-something per cent of that money has come back to local authorities.

Q413 John Pugh: To be fair, they were advised by the Audit Commission that it was a good thing, were they not?

Cllr Sir Merrick Cockell: I remember being on the other side of the argument. Most of the money has come back to local communities, indeed some of it very recently. I do not think, inherently, there is greater risk between a properly constituted, sector-owned municipal bonds agency and the Public Works Loan Board. What it does is open up quite an interesting set of opportunities where you may get money being borrowed for infrastructure or for housing in a way it is not now. Pension funds are very interested in this whole area.

A perverse result of not having a bond agency is that investors can invest in Danish local government but cannot invest in British local government. Transport for London and the Greater London Authority have issued bonds, which have been very well received by the market. There are other knock-on effects that might make it easier for local authorities to repay their debt.

At the moment, it is extremely expensive and prohibitive to pay back your debt to the Public Works Loan Board. Under a developing municipal bonds agency, that may begin to change, and there may be other knock-on benefits that we are only just beginning to identify at the moment. It is part of the growing up of the sector: we are capable of doing this for ourselves, to the highest fiscal standards, and we should be able to. We would never aim to take over from the Public Works Loan Board but a bit of healthy competition with Treasury would be no bad thing either. We might point to the current rates as being some of the impact of considering setting up a bond agency; they show some competition with Treasury in action.

Chair: Thank you very much indeed for joining us this afternoon and giving evidence to us. We appreciate it.

Panel 2 Questions [414-442]

Witnesses: **Professor Tony Travers**, Chair, London Finance Commission, and **Rob Whiteman**, Chief Executive, CIPFA, gave evidence.

Q414 Chair: Good afternoon. Welcome to you both. For the sake of our records, could you just say who you are and the organisation you are representing on this occasion?

Rob Whiteman: I am Rob Whiteman. I am Chief Executive of the Chartered Institute of Public Finance and Accountancy, CIPFA.

Professor Travers: I am Tony Travers from the London School of Economics, but I was Chair of the London Finance Commission. I am a member of the City's Growth Commission as well.

Chair: We will not go through all the other commissions at the same time.

Professor Travers: That is still living, that one.

Q415 Chair: Tony, first of all: when we talked previously with you about the model of devolution of the various taxes the London Finance Commission was proposing, you discussed the possibility of having something like the local government business rates model. Yet the Finance Commission, in its recommendations, does not talk about top-ups, tariffs or resets at any point. On reflection, do you think there ought to be those elements to any wider devolution of property taxes to local government?

Professor Travers: There are two elements to that question, Chairman. One is that if the full suite of property taxes were devolved to London or any other cities, there would need to be arrangements within the area concerned for handling such matters thereafter. That would be an issue within the area concerned once the reform had taken place.

Then there is the secondary issue—the other issue—which is whether this area, and for these taxes, then be cut off for all of time and not affected by everything else that happened, either directly in the matter of local government or more generally. I would say two things to that. One is that—and I did make this point last time—we are talking here only at the most radical end of the spectrum about moving to a point where 12% or 13% of all the taxes that were paid, certainly in London, would be devolved. The other 87% or 88% would still be in the hands of central Government. It would be up to central Government then to decide what it wanted to do to areas that might get left behind if that was a problem. There would always be ways of intervening outside of the local government finance system to do that.

What this points us to is that there is always a spectrum within any local government finance arrangements in Britain—or separately in Wales, Scotland and England—between full equalisation at one end of the spectrum, which is what we had in effect for many years, but within which it is impossible for any one authority ever to benefit from economic growth. It cannot build up its tax base. If you have full equalisation—and we did for many years—you cannot build up your tax base at all, because any extra tax base you generate will be equalised away. That was the logic of the previous system, which is why the

previous Government, and now this one, have taken steps, or at least made an effort, to get away from that arrangement.

At the other end of the spectrum, there is a “winner takes all” system, where those who grow build up their tax base, and those who do not lose everything; as their tax base declines, everything within that declines. I doubt we will ever go completely to the “winner takes all” end of the spectrum in a relatively small country like England, but whether the protection of areas that get left behind is best done from inside the automatic equalisation system or, I would argue, from outside—because many of the areas that are left behind are places that need radical investment and changes to their economy, which go well beyond anything that the day-to-day funding of local government services can provide. I doubt we will ever move away from some level of equalisation and with it, therefore, the question of the possibility of some kind of reset every X years, but I do not think we can any longer go back to full equalisation because, in such a system, there is no capacity for any one area to benefit from its own growth. You could just never do that.

Just to add one final thing, Scotland, after all, has been in this position since the late 1970s and so has Wales. There has been no equalisation across the border, between Scotland and England or Wales and England, since the Barnett formula was put in place. In that time Scotland’s economy has grown faster than most regions of England.

Q416 Chair: It has had quite a good deal under Barnett, has it not? We will not go there today.

Professor Travers: That is my point. It is not the change over time. It is, in a sense, how all public expenditure affects the area.

Q417 Chair: You mentioned, in passing, about sorting these problems out outside the local government financial arrangements. Could you just elaborate a bit more on that?

Professor Travers: If there were city regions that had this modest suite of taxes given to them and there was a cut off, and thereafter any growth in the tax base they would retain, and you did not then have a reset, if there were other places that were not doing so well, then from within the remaining 88% of the overall tax base that was still available to the United Kingdom Government in England, they could intervene in those authorities with major new investment schemes. They could boost spending on other things to try to give the economy a chance to work better but outside these arrangements in the places that have been given the different city—

Q418 Chair: Does that come back to the issue I was pushing Sir Merrick at the last session about looking at a wider view of public sector services and funding in an area? He was saying that Rob Whiteman was the person to ask about that in terms of the commission.

Professor Travers: Yes, thank goodness he is here. Seriously, absolutely, Chairman, because if a part of England—a local authority—is, over the long term, falling behind other places, the idea that equalisation within the local government finance system is the answer has been already discredited, because we have had that system for decades, and some places have fallen behind. They need extra and special help from beyond the automatic equalisation system, because that has not really proven sufficient. I think the Government could use the much bigger resources the national Government then has to say, “If an area is not growing, what help does it need?” rather than just saying, “It gets some equalisation help; it is up to it to do it.”

Rob Whiteman: The opening comment I would make is that the broader issue will always be that form should follow function. What does Government want from local government? What is the role of local government? There needs to be clarity around that. Then, what is the best way of funding it? We could argue that we do not have local government; we have councils. Councils provide a set of prescribed services that Government says it can carry out. That is a system. If Government wants to see a system of councils providing services that it sets out it should then, in effect, it will keep it in a financial straitjacket. At the moment, the system of finance is that councils have very little scope for manoeuvre within the prescription of what they do. As was said earlier while Sir Merrick was here, even council tax increases above the rate of inflation now are subject to a referendum. So, in effect, councils operate in a fairly tight financial straitjacket, and Government says what they will do and how much money they will have to spend.

What is the role of local government? First of all, is the role of local government to broadly fill in the gaps, ensure that economic development is taking place and provide community leadership? It may fund things that are outside of its present prescribed set of services. At that other extreme, you would give local government quite wide powers of raising taxation in order that it could carry out a role of being local government and of filling in the gaps on things that it might not be responsible for. It may feel that a better probation service was needed in London or certain public health initiatives, even if those are not the things that we presently think of as being the councils’ responsibility. First of all, the biggest question should always be: what does Government see as the role of local authorities?

Secondly, though, at the moment, because we are about 40% of the way through cuts, with another 60% to come, local government has successfully raised an argument to say, "Can we look at a broader set of government spending and of public spending?" Because whilst with spending and controls through individual departments leading through to their services—whether it is the police, probation, health or schools—you can get efficiency or cost control within that economy of scale, it does not provide system efficiency. It does not deal with prevention or early intervention or how well public spending overall ensures that you are investing in the things that will stop acute spending later on.

Local government has quite successfully raised an argument that that needs looking at. You will know that, on the whole, because quite large parts of the state have been protected in terms of austerity to date—so with the ring-fencing or the protection of the NHS, schools or other areas—CLG has seen its budget fall by some 50% over the lifetime of the CSR. Councils are seeing their government funding fall by about 30%. So the broader question is: is there a role for councils in making sure that public money being spent locally can be spent in a system-efficient way and that working together commissioned budgets can ensure that there is early intervention, prevention and system efficiency?

Again—sorry to labour the point—the argument is that central Government control creates vertical efficiency in that individual area. You can get cheaper benefit administration or cheaper schools, but it does not create system efficiency across the way that public spending is taking place. If there is a role for local government in system efficiency, and if there is a role for local government to say, "We will have different degrees of a service in a particular area because that is the nature of the area that we serve. We need a bit more of that and a bit less of that and we want to move money around priorities and different blocks," you would give local government more freedom in the way it can raise taxes or revenue to be able to fund what it thinks best.

My own view, Chairman, is that at the moment, sooner or later, this issue will have to be addressed. We have seen over the decades the amount of latitude that local authorities have being constrained. I think it is now to a point where within a decade the system just might not work anymore, because councils are so straitjacketed in what they can and cannot do. Therefore the opportunity to consider what the role of local government is, how that relates to other areas of public spending, how best it should be financed, and how best it can be held to account for its financial decisions, is probably the shape of future reform, and certainly for the commission that Sir Merrick mentioned earlier—the CIPFA and Local Government Association commission—we would like to start from the broad place of: what international comparison is there for how best public money can be aggregated in an area?

Q419 Chair: The simple question is: if that is done, is there a possibility you can develop a system that allows for the incentives of retention of local taxes, business rates, council tax and other taxes, and allows money for equalisation?

Rob Whiteman: There is always a tension there, is there not?

Chair: Could you think, without devising it today, that you could develop a system that allows both? That is the heart of the question.

Rob Whiteman: Yes. That is at the heart of it, is it not? On the one hand, you want to incentivise areas to be able to grow; on the other hand, there is a risk that some areas may fall behind.

I would make a couple of points, if I may. First of all, if the cake getting bigger itself can be shared for the sector as a whole, any reset would be made more attractive. On the whole, if the benefits of growth from the cake are not going to be getting any bigger because the Treasury will take the rest, it can feel like there is a zero sum game between different types of authority. If there is growth on the back of councils being incentivised to achieve more and they get more business rates or more yield, some of that extra yield making the cake bigger would make the reset that would be necessary from time to time more palatable.

Q420 Chair: The London Finance Commission was devised for London—perhaps that is not so surprising—and it came up with recommendations that everybody in London could feel very comfortable with. Then it asserted that several proposals could be rolled out for the Core Cities as well. Does that rather surprise you—that they were brought into it? Look at business rates: clearly business rates are quite a big contributor potentially to local authority coffers in the course of this. However, when you get things like stamp duty, the weighting is so much in favour of London compared with the Core Cities; they almost signed up to something without realising it, did they not?

Rob Whiteman: I heard a deep intake of breath from my colleague.

Professor Travers: Stamp duty is an odd and contested tax, to put it generously. It is odd in several different ways, and the fact is that it is now, in a sort of proxy way, being used as a part of a way of—I will choose my words carefully here—handling what might or might not be seen by some people to be unusual property increases and buying patterns in some parts of the country. I have put that carefully, as it is. If it were not for the fact that it is generating a very large amount of money because of the curious property market conditions in London, it would be easier to make a judgement about it. That is what

is going on everywhere else in the country; it just operates as it always did in a reasonably ordinary way. It produces tens of millions, rather than billions, of pounds in most places.

To answer your question directly, in that sense, of course it would generate less money in the Sheffield city region, the Liverpool city region or even the Manchester city region, by a long way than it would in London. However, even there, it would leave those authorities with a bigger tax base than they have today. It can barely be smaller than it is today and it would mean the benefits of growth were smaller than they would be in London.

In London, as I say, this is all made more difficult by the curious conditions of the London property market, but, dare I say it, given those curious conditions, for the London authorities—and you could ask this question the other way round—signing up for this, are they 100% certain that London property prices would not fall in the future? It is a bit of a gamble; it works both ways. Is this the top of the boom, or is four years or four months out the top of the boom, and so on? Russia, everything—these things can affect the way property prices operate. At any point, the suite of taxes that are transferred will create more of a revenue source in London than they would in the other cities. However, for the other cities, it would still give them a bigger source than they have today. I suspect that many of those cities hope that as the economic recovery stretches across the country, there is a realistic chance that other parts of the country will grow faster than London now. At that point, they would be able to benefit from the growth in stamp duty—it will not be as big or as radical.

Again, if I can refer to Wales, in the matter of Wales, which is being offered, like Scotland, stamp duty land tax, the Welsh Finance Minister has already intimated that the current way of operating stamp duty probably is not the best way to do it. I am not sure whether that has been said exactly and precisely in that way, but that is what is meant. With that in mind, it would be possible to operate this tax rather better than it is now, dare I say.

Q421 Simon Danczuk: The business rates retention scheme excludes local authorities from having the power to set varied business rates and only 50% of business rates are locally retained. How would it work under fiscal devolution, Tony?

Professor Travers: Again, going back to the London Finance Commission, which was, as the Chairman said, about London although, as the Chairman also says, the Core Cities and city regions support the same policy, under the LFC proposals, the setting of the business rate would in future be at the local level. That would bring about that change as well, although the business rate poundage multiplier, as it is

now called, would be linked to the council tax rate. So the one would not go up and down without the other, which was what was true in the old rating system up to 1989-90. If one went up the other would, so they would be fixed together.

Q422 Simon Danczuk: There would be no relationship between what is going on in London, for example, and what is going on in other parts of the country that do not have this fiscal devolution?

Professor Travers: It would depend how many places, whether it was London alone or London and two or more of the Core Cities, in the first instance had these powers, but it is true—as I said when I was here last time, I am partly conscious of the need not to frighten the Treasury in proposing this. The idea of London and one or two other places trying this out first is to show what would happen in a sort of pilot—although I am not sure I like the word—in order to test whether the skies fell in and to see whether something went badly wrong. If it did not go badly wrong, as it did not in Scotland or Wales, arguably, then it would be possible to move on to other places. Why I am personally cautious about saying, “Why do we not do it across the whole country at once?” is that that would produce greater resistance, whereas trying it out in one, two or three places at once has just the slightest chance it could be attempted with the hope that it would then be picked up everywhere else if it worked out.

Q423 Simon Danczuk: To keep it simple so that I understand it, the Government currently collects about £26 billion through business rates. You would now give the powers to Greater Manchester, London or wherever else; they are setting them themselves, and they reduce the business rates. There are two issues there: the total pot now only collects £24 billion, for argument’s sake. Where does the other £2 billion come from? Do we just accept that less is being spent?

Secondly, reducing business rates puts Greater Manchester at a much better advantage, whereas Cheshire do not get the opportunity to do that, do they? They are in direct competition with Greater Manchester. I do not usually argue the case for Cheshire, but in this instance I am.

Professor Travers: It is true that this would potentially trigger mild potential tax competition—and I stress “mild”, because we are still talking about a relatively small proportion of the overall tax burden. Some places could keep taxes down to have a competitive advantage over other places. Many economists—I am not an economist—would argue that this would be inefficient tax competition. The truth is that many other countries that have perfectly effective economies do have that kind of tax competition.

By the way—and I am sorry to keep coming back to this—what is now proposed for Scotland and Wales will indeed create exactly this kind of tax competition, if what I hear, certainly from Scotland, is to be believed; that is within the United Kingdom, I might add. Therefore, we are about to try this out in real time, in addition to which there are some places in England—London—that already have two small additional taxes in place. One is a business rate supplement to pay for Crossrail, and the other is the Olympic levy, which lives on to pay as a levy on the council tax. Those are both in place. I do not know whether they make London slightly less competitive compared with the rest of the country, but London got the Olympics and London is building Crossrail. It is paying for two-thirds of Crossrail through its own revenues. You could say that is an unfair disadvantage to London or an unfair advantage, but at least it is a decision that was made roughly about London, where London pays for its own investment,

Q424 Simon Danczuk: What you are proposing is quite radical but good. Why not just come out and say that business rates are not really fit for purpose, which is what everybody thinks, and we need to come up with something? Why not propose something radically different?

Professor Travers: It is a very good question, and the truth is that council tax and business rates and stamp duty all need reform. My only concern is that, if we were to advocate reforming that, we would be fighting two battles, not one. One would be to reform the tax, and then to devolve it. I am just trying to be “small c” conservative and live with the thing we have, however imperfect, but hope that, if it were handed sub-nationally, those sub-national units of government would then behave in a way that was more locally tailored to what was necessary locally, and might well decide that they could reform business rates or council tax or stamp duty land tax in a way that made them function more effectively. It does not happen nationally.

Rob Whiteman: Most systems of taxation will have a property tax. Most countries will have a property tax. Of course, uniquely, in the UK we align the property tax with local services; the Poor Relief Act of Queen Elizabeth linked the penny rate to poor relief, and we have sort of done that ever since. Arguably, you could break the link, and this or any other property tax could be one of the taxes that Government funds, and local government could be funded by a different tax. It could be funded by a sales tax or by income tax. We tend to link the two.

Secondly, whatever comes next, the credibility of the property tax, whereby people understand how it works, is quite important. This is an English problem. I was in Belfast City Council recently, which of course is still more than 70% self-funded through the rates. They did not have the

community charge or the council tax that followed it, and they are still funded by the rates. This is an English problem. As Tony has said, we are seeing devolution to other administrations.

Simon Danczuk: It is a quandary rather than a problem.

Rob Whiteman: A quandary—thank you, sir. One of the problems with the property tax is that it has not been that popular over the years. Just to stand back for a minute, there was a revaluation in 1990, but before that there had not been a revaluation since 1973 so, in effect, we have had one revaluation of these property taxes in 40 years, because no government wants to order a revaluation at any one time. For expedience's sake, it is always put off, but a system of taxation would hopefully be readily understood.

I heard you ask Sir Merrick about the Valuation Office Agency. I imagine, under the proposals of the Finance Commission, the Valuation Office Agency would continue to exist and set rateable values for business rates based on rent, which is what it does at the moment. It has a valuation date called an antecedent date. I think you can have a system where business rates are retained by councils. Councils could retain that 100%. The great city regions could retain 100%. As the Chair asked at the very beginning, the question will be how government wants to deal with funding areas that are not growing as fast. Do they want to have a targeted growth fund, let's say, or a means of funding areas that are not growing, specifically called that, or does it want to try to deal with it through equalisation in the form of distribution?

There are two different ways of doing it. One could say, if you took the London Finance Commission's proposals, you just let London or Manchester go, and they keep their business rates and they grow, and the problems—or the quandary—of what to do with areas that grow less fast you do not necessarily deal with through equalisation and redistribution. Government has other levers through which it could address its growth strategy. Tony and the London Commission would say that there are other means of dealing with the differences in growth and regeneration than always having to reset. My personal view is that every now and then Government would want to reset. I do not think it would want to commit to never resetting if it allowed for devolution of business rates, but it would probably be a fairly rare event. The whole purpose of the devolution of the business rate would be to set up incentives so that areas want to grow.

Q425 Simon Danczuk: There is often talk about international comparisons: England being very centralised and other countries being more devolved. In relation to those comparisons, has anything been done around the calibre of the people making the decisions at a local level? I am thinking about the calibre of councillors and officers to handle

much bigger budgets—handle more cash and money. That seems to me to be quite an important issue.

Professor Travers: I am not sure of any research on it, partly because I am not 100% certain how it would be possible to compare, if I am honest. Trying to measure the calibre of councillors now compared with the past, or councillors now compared with what happens in France or Germany, would be terribly difficult. At the risk of making a cheap point, the baleful trail of reports from the National Audit Office, reviewed regularly by other committees in this place or another, is to me heavily suggestive that calibre is one thing—I will put this carefully—but proximity to where people can see the money being used may be a very powerful pressure on the use of money.

Since you invited me to speak, I have thought about this a lot, and one of the things that strikes me is this: even if really high-calibre people are making decisions in London SW1 about transport needs, they will have a better mind's eye view of the District Line's needs than the needs of the Manchester tram system, or the Leeds or Sheffield public transport system, simply because they know it. That is not because they are morally better or morally worse; it is just because they know what it looks and feels like. The more decisions are made by people who feel how that system operates, the better they will use the money, simply because however frail we humans are, the ones nearer to you are the ones you can eyeball and get to make the decisions that you want. That is why I think that, even if we could measure calibre, there might even so be advantages in having decisions made by people who understand the place they are making the decision about.

Simon Danczuk: That is a really interesting point.

Rob Whiteman: I am neutral on this. CIPFA accountants are finance directors in the majority of central Government, health bodies and local government. On the whole, the quality of financial management in local government is quite strong, because councils are able to plan their finances in the medium term, albeit it is a very difficult financial settlement. However, they can plan their finances. On the whole, the quality of financial management in local government is very strong.

Q426 John Pugh: While we are on the subject of accountancy, I think our concern is the Government—in particular for major new infrastructure development in London and the like—is not prepared to look at some sort of exemption from normal public spending rules. If you had to persuade them that this was a good thing, what would you present them with by way of an argument?

Professor Travers: The truth is that, so long as we have a public spending control system of the kind we do—which is in effect that the government of the day sets for a number of years out a grand total of public expenditure, and we now have one set all the way out to 2018/19—whatever happens, if a part of the country were given some fiscal independence or autonomy and were able to grow its economy faster and then spend more, that extra spending will always count against the preordained total. There is no way out.

Q427 John Pugh: Including, for example, the contribution made by businesses to Crossrail. Would that count as public expenditure as well?

Professor Travers: Absolutely. Of course it does.

Q428 John Pugh: Even though that is no skin off the Government's nose, as it were.

Professor Travers: Every single penny of every tax and all borrowing counts as public expenditure. Therefore, it does not matter whether it is coming from the Crossrail levy; it will all count, and therefore it would not matter. If these proposals were enacted and then the economy grew faster because there was an incentive effect, and at the end of that the authorities concerned could spend more, then that extra spending would count against the pre-set figure of total managed expenditure.

Q429 John Pugh: There is a perversity attached to the rules, isn't there? In the case of Crossrail, you have what is a net contribution displayed as some sort of liability, do you not?

Professor Travers: Yes.

Q430 John Pugh: The money is not borrowed; the money is given.

Professor Travers: Yes. Crossrail is a very interesting example because, as I say, two-thirds of the money that is paying for it will either come from users or London taxpayers. Only one-third, broadly, comes from the Treasury. In that sense, it is a sort of living example of how we might go further, and it would not be unique to London; this could be done elsewhere if there were the freedoms to do it, by the way.

If I can go further into the total managed expenditure figure, had we been having this conversation in the middle of a long period of economic growth, with public spending growing, back in 2006, this

would have all been true then too. It is always true. We are stuck here with a system that has its own self-contained logic that means that, if any one part of the country grows faster than the other and generates more taxes for public spending, leading to high public spending, which has to be clawed back from somewhere else. That is why in the Finance Commission we effectively put in a thinly disguised argument for some derogation—some exemption from these rules—at least for investment. If this money were generated by city regions as a result of these reforms going through, and they were then able to invest in their infrastructure—in tramways or, frankly, any physical capital—the money markets and the eight ratings agencies would tell the difference between that and borrowing to fund day-to-day spending.

John Pugh: And welfare spending.

Professor Travers: I will leave you to add that, but yes.

Rob Whiteman: One of the interesting things is that, on the whole, with the form of devolution we are speaking about, councils borrow money in order to invest. Bond markets or financial institutions understand that local borrowing is firmly linked to capital and investment. One could make an argument that the more you promote devolution and autonomy of spending, the more likely it is that you are building a system where borrowing is for investment and capital expenditure, rather than plugging the gap on total managed expenditure.

Q431 John Pugh: The previous Prime Minister did draw that distinction fairly markedly, did he not?

Rob Whiteman: Yes.

Professor Travers: At the risk of causing trouble, I think I am right in saying that if, under the devo-max proposals for Scotland, Scotland gets significantly more autonomy within the UK and then grows its economy substantially faster and spends more, then in order to fit total managed expenditure, public expenditure would somehow have to fall elsewhere. If that is not the case, then the Scots will be given an exemption from the rules that I am describing.

Q432 John Pugh: Are we dealing with a set of strange and perverse accountancy rules that have no real inherent logic, rather like the decision at one time to take PFI off the public balance sheet because it just was, or do you have more sympathy for the Government's point of view?

Professor Travers: In fairness, it is not accountants' fault. In fairness to the Treasury, the decision of successive governments has been to have an overall total for UK public expenditure—to have a borrowing target, in effect—and from that everything else falls out. The way the Office for National Statistics measures public expenditure is entirely ordained by classifications issues, which I am sure they would say were fitting with international accounting standards, for example.

John Pugh: Yes, they will.

Q433 John Stevenson: It is an interesting idea that you will move to this new world where you have fiscal independence, and the timing is important. If you go now, the prospects are that the tax yield will rise because the economy is recovering, and there could also be additional revenue raised by good policies, investment and making the local economy of London grow faster than the rest of the country. Is it fair that London effectively gets the benefit of both?

Professor Travers: I do not want to hog this; Rob wants to say things, I am sure. If the London Finance Commission's proposals worked—in London and/or other city regions—and if they did indeed incentivise growth within that city region, it would of course grow the yield of the 12% of the taxes in London that were being held locally. However, if it happened, it would also of course grow the other 88% of taxes. If the economy were growing faster than it otherwise would have done, income tax, VAT and all the taxes that are still in national Government's hands would also grow faster. There would be a bonus or a dividend for the Government as well, if it worked. If it did not work, London would lose out.

Q434 John Stevenson: The timing is very important, because if you had gone for this idea of fiscal devolution in, say, 2007, when the economy was already doing extremely well, and then it hit the buffers—

Professor Travers: You are absolutely right, because none of us can ever predict economic cycles. Within any economic cycle within the UK, you get different speeds within each region. Your point is absolutely fair because, at any point you did it, London would stand to gain, or it could stand relatively to lose if it was at another point. If you do it now and the rest of the economy grows faster than London, which might happen, then London might have been better off staying inside the system that is here now. It depends on the different speeds of the economy, not only absolutely but in relation to each other at any one point in an economic cycle.

Having said that, over time—in the last 15 or 20 years—the London economy has grown faster than the UK economy. There is no denying that. I would say, in parentheses that that was in the most centralised system in the developed world; this is the product of a very centralised system. If there were a different financing system for city regional government, it might leave London with a slight further advantage, but it could leave London not doing as well as the rest of the country. It would depend upon at which point of the various economic cycles you make the reform.

Q435 John Stevenson: On that point, say London hit a severe recession—it was London-orientated and the rest of the country managed to continue to grow and be very successful—and was specifically hurt. How do you think London could deal with that? How would it deal with that?

Professor Travers: It would put enormous pressure, and rightly, on its policy-makers to do something about it. That is the reason for making the reform.

Q436 John Stevenson: Did you do any research on the potential impact of that?

Professor Travers: No is the straight answer. We would then be in future hypotheticals beyond any that I think we could envisage, partly because this world has not existed in our thinking—in the world in which we are all operating public finance systems. However, if it became clear that the London economy was growing more slowly than the rest of the UK economy and tax revenues were falling behind, that would put huge pressure on the city government to do something about it, and that will happen, by the way, in Wales and Scotland when they get such tax revenues. It is bound to happen. It will be a healthy reform, because it will remind people in Scotland and Wales that spending has to be financed from taxation. At the moment, the Government there spends the money but does not raise it. Having both done in the same area will be an enormous improvement in terms of accountability for us. That is rather a long way off the subject; sorry.

Q437 John Stevenson: No, it is interesting. The same thing applies to other parts of the country. Core Cities will benefit from exactly the same principles.

Professor Travers: Yes.

Rob Whiteman: That is absolutely right. London collects a fifth of all business rates, for example. We have been talking about business rates, and indeed probably half a dozen boroughs account for

most of that business rate collection. It is hard to envisage any solution made for London where it is not understood how that will work nationally and what that national solution is. The work of the London Finance Commission, if implemented, is unlikely to be a solution only for London without understanding what the solution would be for Greater Manchester or other areas of the country, because London plays such an important part in our fiscal make-up.

Secondly, I think I have seen movement in this over the last decade. Tony may wish to comment as well. Probably a decade ago, the traditional Treasury view was that spending in any one particular area made no difference to the economy overall. It was all displacement within the economy, and I was a local authority chief exec and I would go along and argue for some money for our town centre. On the whole, their eyes would glaze over, because they just viewed this as displacement within the economy. I think that has changed. In the last five or 10 years we have seen a change in Treasury's and Government's outlook—that growth can be fuelled by cities and the UK plc itself will have a bigger share of economic prosperity if cities are doing well, and it is not just a question of displacement within the economy. Therefore, Treasury would want to see London, Greater Manchester and Birmingham performing well, because it does not just cause displacement to other parts of the country that somehow suffer because of that. The UK would be more successful economically if its large cities were performing well. I think there has been a real difference in outlook around displacement.

Professor Travers: Certainly there is more openness.

Q438 John Stevenson: The logic of your argument is that, if London hits the buffers, it is up to London to sort its mess out. It has got to adjust to lower tax yield. It has got to do what is necessary to try to get the growth rate back up. I assume if fiscal devolution is granted to the rest of the country, the same principle applies, and basically you are saying if Manchester does a great job, gets its economy going well and does all the right things and grows, while Leeds makes a hash of it and starts to go into decline, so be it.

Professor Travers: Yes and no. There are two things I would say to that. First, in the history of urban England, places like Manchester and Liverpool and their city regions were the origins of the economic success of Blackpool. In a sense, there is an interdependency—we all know this, and you know this better than me—between different parts of the country. However, I also accept that we are in a very different place to 19th century industrial England. No city or town in England—and I am sure this is true in Wales and Scotland for the same reasons—is going to be allowed to decline in the way that

might be possible in other political systems. I know that, and which of us would want it?

We are always back on this spectrum between full equalisation and “winner takes all”. Even if we move quite a long way towards the “winner takes all” end of the spectrum, I do not think for a moment that any government is going to allow a hollowing out and decline—it has happened to some degree anyway—any more than has been allowed. A government would inevitably intervene to try to think about what help was needed for areas that continued to decline. This has improved since the late 1970s out of all recognition. The sophistication of successive British governments in thinking about the interventions at city and city-regional level has improved enormously—there is no question about that—from generalised grants for urban renewal towards very targeted financing. The relationship between central Government and local government successively about these issues is very good. With this in mind, I doubt very much that, even at the more radical end of the spectrum of the reforms we are discussing here, any national government would step back from intervening to help places that were getting left behind. They would just do it by other means.

Q439 Simon Danczuk: We have just been talking there, rightly, about the economic dynamics between devolved and non-devolved areas in terms of these proposals. One scenario that comes up from the London Finance Commission’s proposals is that we could see London boost its spending on vital services such as social care. We are talking about the social dimension of this. They could use their extra monies to improve social care, while non-devolved areas face continuing cuts under a national grant funding scheme. That surely is not fair, Tony, is it?

Professor Travers: It is true. You are absolutely right that, if there were a reform that cut one, two or three places—effectively carved them out of the wider England system—and if in the first year their grants were reduced by exactly the amount of extra income they got, and thereafter their tax base grew in line with the economy and everywhere else had their grants cut as they are being now, what you have described would happen. In reality, realpolitik suggests the Treasury would not do that. They would probably cut the grants by more than 100% of the tax that was being handed across. It is inevitable that in year one—I am making the numbers up—if London got an extra £7 billion of tax yield and the Government took away, in a year where there was nothing else going on, £7 billion worth of grant, in the current circumstances—where we are today—they would say, “We were going to take an extra billion away over the next three years,

so we are going to take an extra billion away". They would effectively bank in advance some of the expected cuts from the coming years.

That would, again, be quite a hard thing for London or any city region politicians to accept, because they do not, in effect, have to tide themselves over. There might be an adjustment period of five years or something complicated, but I doubt very much—although I see the point you are pointing to—that the Government would say, "Well, we will cut these places off, and they now do not get any cuts, and we will leave everywhere else to suffer cuts". In the current circumstances, anywhere that was given its own autonomy would have to either bank some of the cuts early or face a tapering for two or three years into the new system.

Q440 Simon Danczuk: It is a bit hard to predict, is it not? We are talking about the economic situation, but when we relate it to the social situation—the realities of some people getting much better social care and others in non-devolved areas getting much worse social care—that is the potential reality of what is being proposed. You are saying that the Treasury would make this readjustment, but surely the politicians in London would rightly argue, "What is the point in having devolution if you are going to effect it like this? Why bother having it in the first place?"

Professor Travers: You make the point very elegantly: there would be no point. I have two things to say, Mr Danczuk. The inequalities and differences exist inside a system that for years had full equalisation. This system is the product of decades of near-full or full equalisation. We can all argue about how need and resources and all of that were measured, and everybody does, but the truth is that this system is the product of that world. In the world that we are discussing here, if you look back—although one must not look back to the 19th century too much—the great cities of England did compete service standards upwards at the time. That is, they did use their freedom to improve standards, not to cut taxes and worsen them. That is how municipal enterprise worked, although I do not need to tell anybody in this room that. With that in mind, you get more transparency about differences, and that would, at a local or city-regional level, make some of the differences that now exist more difficult to sustain. However, it is hard to prove that in advance.

Rob Whiteman: The test of a new system would be what happens over a 20, 30 or 40-year period. It is quite easy to think, "Well, what if after a few years there were some differences, and how would that be equalised?" As I said earlier, I can understand the argument for resetting, but the test of a system is, over a 20, 30 or 40-year period, would we see investment in preventative service? Would

we see a system-wide understanding of how much money is spent? Would we see much better join-up between different services?

The GLA is unique, in a way. It is not a social services authority, as the authorities of Greater Manchester are, but you could make an argument that, if the Mayor of London had tax-raising powers and thought it a good thing to invest in social care to make the elderly more economically active or to help children out of care—you could construct these arguments—all local authority areas would start to see the case for prevention and start to build business cases around the way public money is spent.

On the whole, you would characterise our present system across public spending as: “We spend a lot of money at the acute end. We do not spend a lot of money in prevention, early intervention and investment.” That must be a product of the system that we are in. It must be a product of how the system works. For me, the bigger question is: what do we want to replace that with?

Q441 John Pugh: You are talking about the finances of London, and the Chancellor worries enormously about the finances of the UK. He is looking ahead and is probably hoping that the London property market is going to grow, stamp duty is going to increase and that he is going to be able to pocket that and that is going to help him do his sums. Is there not a danger that what you are proposing, simply because it does not really align with how the Chancellor anticipates the numbers are going to add up, will not get very far for precisely that reason?

Professor Travers: Of the many, many reasons why these reforms are inevitably challenging given the starting point, the fact that the Chancellor might hope to make more money in the future—

John Pugh: Essentially out of London, yes.

Professor Travers: —is yet another impediment and barrier to reform. Again and again in this discussion—and it is not unique to today or to city finance reform—we are left with the problem that, even if we can all see a better world in the middle distance, the agonies of getting there are so great we can just never get there. There are almost an infinite number of reasons why nothing can be done, and that is why we can never reform the system.

I take your point. Dare I say it, if the yield of stamp duty and other property-related taxes were in decline, perversely these reforms would be easier to push through. If the Chancellor thought they were going to fall in the intermediate future—and not just the current Chancellor but any other imaginable future Chancellor of a different

party—and there were a collapse in the yield of property prices, what better time to hand it all over to London government?

John Pugh: Devolution built on the collapse of the London property market.

Professor Travers: It is cynical. All I can say is that—and I know you are not—the dynamics of operating any one of these taxes today may be problematic, but it cannot be a barrier to a greater reform, because the greater reform can be argued about on other grounds.

Q442 Chair: You mentioned earlier this issue of the combined total of public spending. If one authority enables itself to grow a bit and spend a bit more, that pushes the total amount of public spending up, and Government feels inclined to do something about that. Does public spending operate in the same way in other countries, or are they more sophisticated than that?

Professor Travers: I am sure the Government would see it as less sophisticated, would they not? It certainly does not work like that in most federal countries. I am not an expert on this. It certainly does not work like this in the United States, I can assure you.

Chair: Or Germany, presumably.

Professor Travers: I doubt it very much. In many countries—and this is the kind of thing that I suspect the Political and Constitutional Reform Committee knows a great deal about—there will be constitutional protections for local government taxation and/or spending, and different rules for the constraint and measurement of public expenditure that mean the system is less all-embracing than ours. It is the kind of thing that somebody will know about, but I am afraid it is not me.

Rob Whiteman: Compared with many systems, we count quite a lot as national expenditure, because there is a strong element of taxpayer funding within it. For example, looking at housing, there are arguments about borrowing for housing being included in control totals; in some systems they would not be, because there is locally raised taxation and that is outside the national books. On the whole, probably we include more within those totals at national expenditure level.

Professor Travers: In the US—I know it is a federal country but it is easy to understand—constitutionally federal government sets its taxes and spends what it spends. States, each of them individually, are protected by the constitution to do that. Within each state, there will be a constitution giving cities varying degrees of freedom, although not

as much as I often think they have. However, in the end, the total of public expenditure funded by taxation in the United States is simply what all of those add up to. It is definitely not something that the President starts with and says, "This will be a total we will work down from". That is definitely not how it is done.

Chair: Thank you both very much for coming this afternoon and answering our questions. Thank you very much.