Combined authorities

Financial freedoms and fiscal devolution

Report

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1 Introduction

About this report

This report assesses how freely English combined authorities are able to raise and spend funding. These 'financial freedoms' were researched in late 2021/early 2022, updating research conducted at the beginning of 2018 (the report describing the research is available on the Local Government Association's website).

The findings reflect the views and understanding of the authors, in what is a complex and always evolving subject. It is based on two strands of work:

1. **An in-depth review of the existing literature.** Including, but not limited to, grey literature surrounding fiscal devolution and recent government policy in this area, the minutes of combined authority meetings and published combined authority accounts.
2. **Semi-structured interviews.** With combined authority finance directors, civil servants and experts on fiscal devolution. These followed an initial presentation and discussion at the Combined Authority Finance Network convened by the Local Government Association (LGA). To allow participants to speak freely, these meetings were conducted on a confidential basis. Where specific references to individual combined authorities are made, these are based on publicly available information and the author's own inferences based on this information.

With this in mind, we believe that this report provides a comprehensive overview of the state of play in late 2021/early 2022.

It is also important to note that this document is not intended to provide a detailed legal basis for decision-making in combined authorities. It is for informative purposes only.

The project was commissioned from WPI Economics by the LGA on behalf of the Combined Authority Finance Network, a network established and facilitated through the LGA's sector-support programme, funded by HM Government.

Context

A significant body of evidence points to the fact that, compared to its international peers, the UK has an especially centralised system of government finance (London Finance Commission).

However, the last decade has seen some improvement as to the extent and nature of financial freedoms available to local areas.

This report focuses on changes that have specifically affected mayoral and non-mayoral combined authorities in England. It assesses the extent and nature of financial freedoms that have been provided to combined authorities and whether and how these have been used in practice.

Our previous report found that, while the Government had attempted to open up financial freedoms to local decision makers, in practice the scale of progress was relatively limited, due to a range of philosophical and practical barriers.

Much has changed since the 2018 research. A new mayoral combined authority has been established in West Yorkshire. Some combined authority revenue sources have been discontinued, and some new ones have been introduced. The global pandemic has put significant strain on local government finances and altered the spending decisions of local government organisations. The Government has made a strong commitment to further devolve power from Whitehall in its 'Levelling Up' White Paper.

More generally, most combined authorities have now had several years to understand and use the financial freedoms that they have been granted, allowing for a better understanding of the pros and cons of each.

Within this context, this research update finds that many combined authority financial freedoms – many of which that were in their infancy when we wrote our 2018 report – are working well.

Nevertheless, we also find that further progress towards greater local financial freedom remains limited, and in a few respects has arguably regressed. This lack of progress is the result of a variety of factors – sometimes local, sometimes national.

These findings are particularly relevant to the Government's White Paper in two ways.

First, the information in the following chapters can be used as a resource to inform further devolution discussions, providing officers and elected officials insight into the range of powers available and the potential lessons that can be learnt from experiences to date. These insights could be used in negotiations on the 'deeper devolution' deals for the West Midlands and Greater Manchester that the Government has promised, as well as for those areas that are being invited to make devolution deals with central government.

Second, the last section of the report outlines options for how combined authorities – and areas that gain devolved powers in the future – can be further empowered with financial freedoms. This will allow local areas to better develop interventions that work for their communities, to extend, deepen and simplify devolution.

Project scope

This assesses the fiscal freedoms currently available to English combined authorities. At the time of writing there were 10 combined authorities in England. Of these, nine were mayoral combined authorities. North East Combined Authority is the only combined authority that is not mayoral.

- Cambridgeshire and Peterborough Combined Authority (CPCA)
- Greater Manchester Combined Authority (GMCA)
- Liverpool City Region Combined Authority (LCRCA)
- North of Tyne Combined Authority (NTCA)
- North East Combined Authority (NECA)
- South Yorkshire Mayoral Combined Authority (SYMCA)
- Tees Valley Combined Authority (TVCA)
- West Midlands Combined Authority (WMCA)
- West of England Combined Authority (WECA)
- West Yorkshire Combined Authority (WYCA).

The report is split broadly in two:

1. **Sections one to four describe** a conceptual framework for understanding the nature and use of financial freedoms; an assessment of the range of fiscal freedoms available to combined authorities, with reference to the differences in freedoms available to combined authorities; and, an overview of the extent to which these freedoms are currently being used in each of the combined authorities and in Greater London.
2. **Sections five and six describe** the outcomes from interviews with combined authorities on the lessons learned from having financial freedoms; and make recommendations for areas where the range and use of fiscal freedoms could be improved or expanded over the short term.

Scope of financial freedoms considered in this project

In reviewing the range of fiscal freedoms currently available to combined authorities, this project has considered financial freedoms that have been established through specific legislation and/or with specific agreement from central government.

For completeness, it also summarises financial freedoms that have previously been committed to through announcements from central government, or that have been discontinued.

This means that it does not consider in detail:

- potential future freedoms where there is not currently a legislative basis, or plan to introduce one, for the combined authority to take forward the freedom (for example a new local tax that is not currently legislated for) or
- a range of freedoms viewed to be 'business as usual', where the general power of competence would allow combined authorities to act. For example, this includes attempts to leverage and/or attract private sector investment into the combined authority and the disposal of assets.

2 Understanding financial freedoms

What is meant by 'financial freedom'?

Our 2018 research highlighted a quote from a combined authority finance director, who was asked to summarise a financial freedom:

> "…the ability to manage a single pot of funding with maximum flexibility on a multi-year basis, without intervention from Government."

While there was a general consensus from research participants that this statement did a good job of describing what a financial freedom is, it was also clear from the literature, wider discussions and assessments of central government announcements, policy statements and publications, that there is no single definition for what 'financial freedom' means.

Hence, this report considers financial freedoms across two key domains:

1. **Raising freedom:** the extent to which combined authorities have control over the size of their budget and how it is raised. For example, a low range of freedom would be a grant from central government based on the number of people in the area, over which the combined authority has no control. Conversely, a high range of freedom would be a locally levied tax, where the combined authority can choose the rate and incidence of the tax and the amount of overall revenue raised.
2. **Spending freedom:** the extent to which combined authorities have control over how and where this budget is spent. For example, for a given budget, a low range of freedom would be that central government requires the money to be spent on a particular service, within a particular timeframe (for example Police and Crime Commissioner functions). Conversely, a high range of freedom would be the combined authority having the flexibility to spend the money on priorities decided locally and at a time to suit local needs.

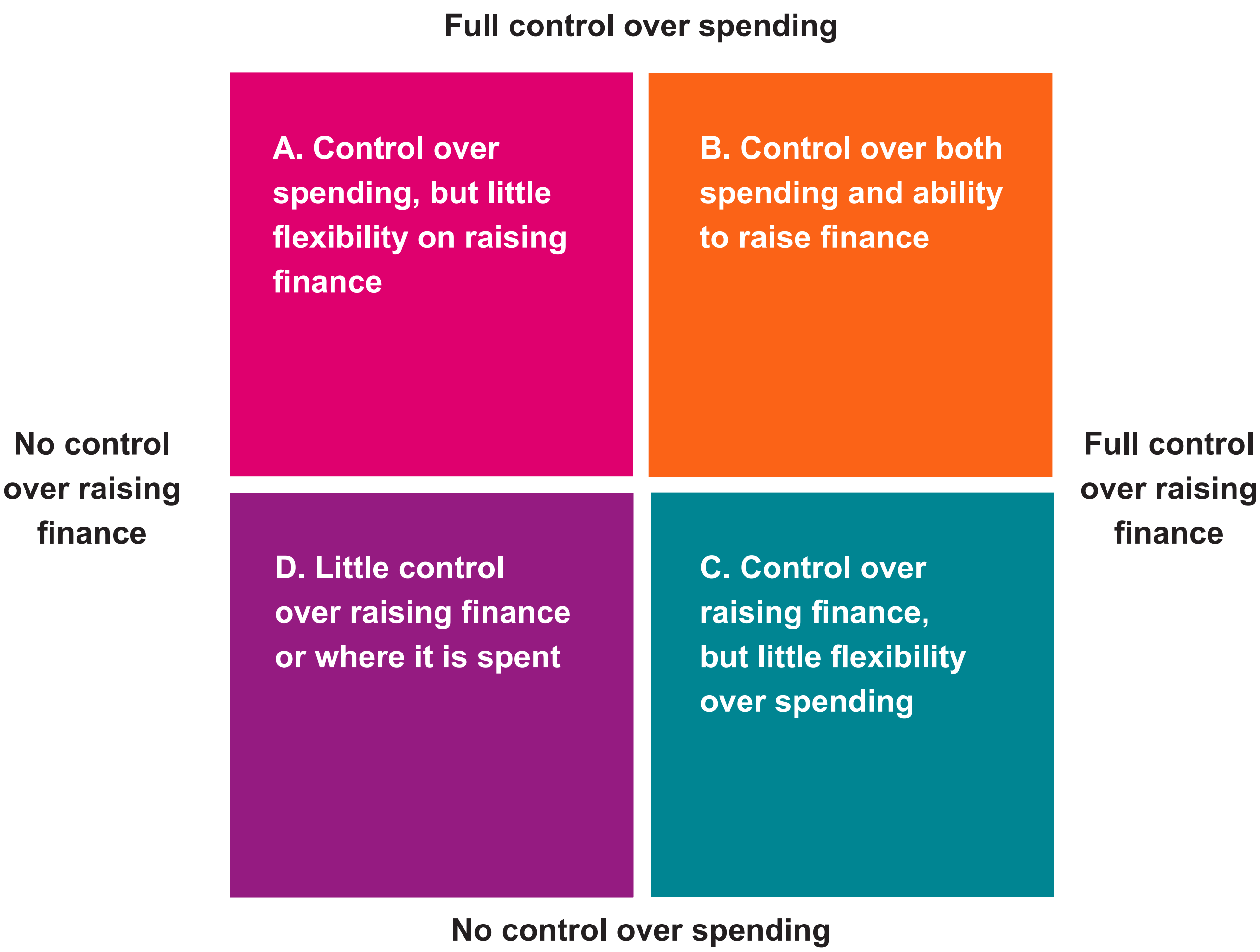
These distinctions are important. In committing to devolution, central government has acknowledged the importance of local decision-making in ensuring the maximum effectiveness and efficiency in delivering services that meet local needs. This is only possible where there is a degree of freedom over both the raising and spending domain; where there are constraints over either of these domains, local decision making is constrained, and the likelihood of local needs being met is reduced.

For example, if combined authorities have full spending freedom (they can spend a given budget on what and when they like), but no raising freedom, in practice their spending decisions are limited by central government decisions around the size of budget allocated and the timescale over which it is given. This also creates uncertainty, as the scale and nature of funding pots provided by central government to local government can change in a relatively short space of time, impacting significantly on investment decisions and project viability.

Equally, where a combined authority has full raising freedom (they can choose to raise the money however they like), but no spending freedom, there is relatively little point in having the raising freedom. With money committed to specific services, this is only a choice over who bears the burden of taxation, rather than an ability to tailor local services to meet local priorities.

Figure 1 conceptualises these arguments across two axes, leaving a four-quadrant classification of financial freedoms. Following this, **Table 1** provides examples for each quadrant.

Figure 1: Illustrative example of the classification of financial freedoms



Source: WPI Economics

Table 1: Summary and examples of each quadrant of the classification of financial freedoms

Quadrant of freedom	Summary	Example
A. Control over spending, but little flexibility on raising finance	Moderate degree of flexibility – with more on the spending side.	An example in this quadrant would be Gainshare/Investment Fund Grant.
B. Control over both spending and ability to raise finance	Greatest degree of flexibility, aligning with the definition at the beginning of Section 2.	An extreme example of this would be complete fiscal devolution, where each combined authority (CA) sets its own budget and raises its own finance, with no intervention from central government. The mayoral precept is the most obvious example of a current freedom located in this quadrant (although located towards the bottom left of the quadrant as the overall size of the precept is – potentially – limited by central government and scope of spending allowed is tied to devolution deals).
C. Control over raising finance, but little flexibility over spending	Moderate degree of flexibility – with more flexibility over raising finance.	An example in this quadrant would be the ability to raise a precept on council tax to fund the functions of the Police and Crime Commissioner (PCC), but with the raised funds only available to spend on the function of the PCC.
D. Little control over raising finance or where it is spent	Limited degree of flexibility over either revenue raising or spending.	An example is the Housing and Infrastructure Fund which is a competitive capital grant provided to councils and CAs to acquire land, deliver physical infrastructure and invest in housing.

3 Overview of available financial freedoms

This section provides an overview of the range of financial freedoms available to – or potentially available to – England's combined authorities. Under individual headings it outlines:

- how our analysis of financial freedoms have been classified, according to framework set out in the previous section
- table 2 sets out the fundamentals of combined authority financial freedoms – the major responsibilities and instruments that have been granted
- table 3 sets out the combined authority financial freedoms related to transport
- table 4 sets out the combined authority financial freedoms that are not transport related
- commentary on financial freedoms – offering insight into the overall picture of combined authority instruments and how they are used
- fallen financial freedoms – those freedoms that have previously been in place, or those that have been suggested but did not materialise
- financial freedoms in London, describing the financial freedoms available in the capital for comparative purposes.

It uses Figure 1 from Section 2 to summarise the findings.

Since our 2018 research, numerous small funding pots have become available and used by combine authorities. Including them all would be an extensive exercise, with little additional value to understanding combined authority financial freedoms. The instruments that are discussed should be regarded as the big-ticket financial freedoms that make a material difference to combined authority activity.

Classification of financial freedoms

For ease of reference, the tables below have classified freedoms on both the spending and raising domains on a three-point scale: low, moderate and high. This is summarised in Figure 2 and described below. It is a subjective assessment based on our understanding of the freedoms available and our discussions with finance directors and wider stakeholders on how they are used in practice.

Low:

- Raising freedom: no flexibility at all, or flexibility limited to negotiation with central government. For example, grant funding would be low.
- Spending freedom: tight constraints placed on how the money is spent. For example, a requirement to spend budget on 'fire and rescue services' would be low.

Moderate:

- Raising freedom: freedom provided within boundaries set by central government (for example a cap on the amount raised or specification of the rates within which a tax should fall).
- Spending freedom: constraints are placed on how the money is spent – but these cover a wide range of options. For example, 'transport' would be moderate as this covers a range of functions, whereas a Strategic Infrastructure Levy would be low as it has to be spent on a specific project.

High:

- Raising freedom: autonomy over the amount raised, how it is raised and when it is raised. For example, a general power to raise debt would be high.
- Spending freedom: complete autonomy to spend how, where and when was needed to meet local needs.

Figure 2: Summary of classifications

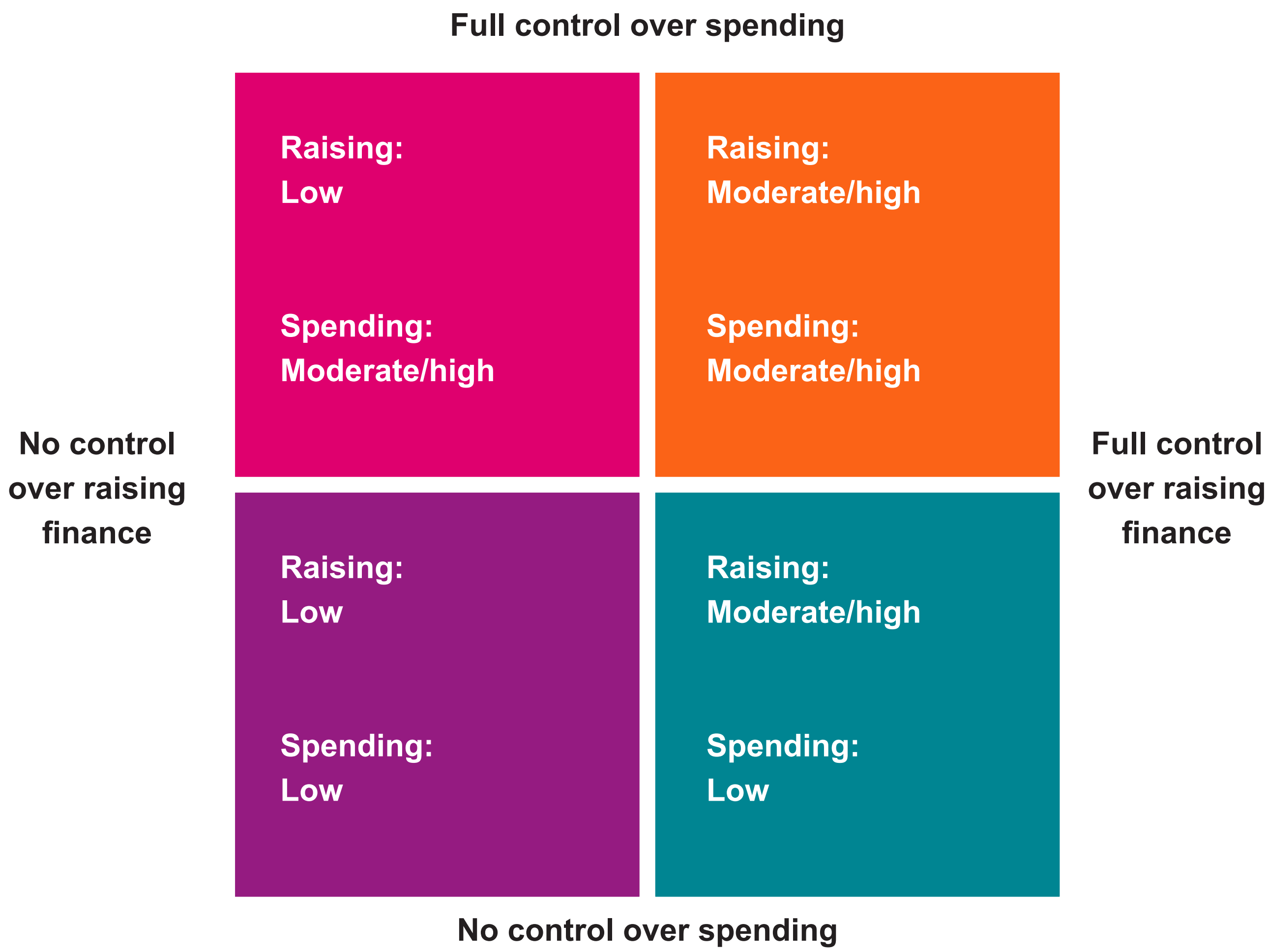


Table 2: The fundamentals of combined authority financial freedoms

		SCOPE				LEVEL OF COMBINED AUTHORITY (CA) CONTROL			
Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
1 **Raising:** moderate/high **Spending:** moderate/high	**Business Rate retention pilots**	Yes	The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2017	Ability to retain 100 per cent of Business Rates revenue growth locally.	Only available in pilot areas – agreement over split between CA and constituent councils varies.	Low – Moderate	Cannot vary structure of the tax itself, but action to increase tax base will lead to higher revenues.	Moderate	In principle, pilot areas are free to spend as they wish. However, there have been offsetting reductions in other sources of financing, meaning existing spending pressures that will need to be met.
2 **Raising:** moderate/high **Spending:** moderate/high	**Business Rate supplement**	Yes	The basis for this was the Business Rate Supplement Act 2009, which was intended to be revised by the Local Government Finance Bill 2016-17 (but the bill fell). Orders subsequently provided powers to five CAs.	Ability to ask for additional 2p in the pound from local businesses to raise funds for projects to promote economic development (as already conferred on existing levying authorities).	The original intention was for it to only apply to mayoral CAs. Following the fall of the Local Government Finance Bill, secondary legislation provided the power to Cambridgeshire and Peterborough, Liverpool City Region, West of England and West Midlands. Provision for a Business Rates supplement was also included in the West Yorkshire devolution deal.	Low – Moderate	Subject to consultation with local businesses and a local ballot. Can vary by up to 2p in the pound. Note that where more than one supplement is in place, combined value must not be more than 2p in the pound.	Moderate	Limited to infrastructure investment and consultation with businesses must outline how the money raised is going to be spent.

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3 **Raising:** moderate/high **Spending:** moderate/high	**Mayoral precept**	Yes	The Combined Authorities (Finance) Order 2017.	Available in mayoral CAs with agreed and legislated devolution deal.	No formal variation in principle. All mayoral CAs, apart from West of England CA, have same scope of powers.	Moderate	Set by mayor in agreement with leaders of constituent members of CA. Secretary of State retains power to require a referendum – and sets threshold limit each year. No limits have so far been set.	Moderate	Can only be used to fund mayoral responsibilities. Budget needs to be agreed by constituent members.
4 **Raising:** moderate/high **Spending:** low	**Fire and Rescue (F&R) precept**	Yes	The Combined Authorities (Finance) Order 2017.	Where CA has taken control of F&R responsibilities, precepts can be raised on council tax to fund these roles.	Only applicable where mayor has taken on responsibility for F&R.	Low – Moderate	Set by mayor in agreement with constituent members of CA. Secretary of State retains power to require a referendum – and sets threshold limit each year (although, as above, this has not been implemented as of yet). Note that this forms part of the general mayoral precept, rather than a precept in its own right.	Low	Limited to mayoral functions, including F&R.
5 **Raising:** moderate/high **Spending:** low	**Police and Crime Commissioner (PCC) precept**	Yes	The Combined Authorities (Finance) Order 2017.	Precepts can be raised on council tax to fund the role of the PCC.	Only applicable where mayor also has PCC responsibility.	Low – Moderate	Set by mayor and reviewed by the Police and Crime Panel. Secretary of State retains power to require a referendum – and sets threshold limit each year (although, as above, this has not been implemented as of yet).	Low	Limited to functions of PCC.

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6 **Raising:** low **Spending:** moderate/high	**Gainshare/ Investment Fund Grant**	Yes	Devolution deals	Long-term grants agreed by government. An independent panel assesses the impact of investments on economic growth at five-yearly 'Gateway Reviews'.	Only in place in mayoral CAs.	Low	Funding is typically agreed as part of devolution deals over a period of decades, meaning little or no ability to change the profile of that funding.	Moderate	Future funding can only be unlocked if they pass Gateway Reviews every five years. There is a large degree of freedom to spend how a CA wants, but it must ultimately contribute to economic growth to pass the Gateway Review.
7 **Raising:** low **Spending:** moderate/high	**'The Single Pot'**	Yes	Devolution deals	Brings together a variety of budgets, including transport grants, with flexibility to move funding between different types of projects and spend in different years, to support the local economy.	Available to mayoral CAs. Existing budgets that are brought together to form the single pot are different for some CAs. NB: Includes the aforementioned Gainshare/Investment Fund Grant.	Low	An amalgamation of existing funds – no extra revenue raising power.	Moderate	Spending subject to Single Assurance Framework agreed between CA and Department for Levelling Up, Housing and Communities (DLUHC). However, individual elements (eg local government finance and Investment Fund Grant) of pot may also be subject to continued scrutiny under existing arrangements for each element, meaning that flexibility is more limited than name implies.

Table 3: Transport-related financial freedoms

		SCOPE				LEVEL OF COMBINED AUTHORITY (CA) CONTROL			
Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
8 **Raising:** moderate/high **Spending:** moderate/high	**Transport borrowing powers – CAs**	Yes	Conferred through Order establishing the CA, based on Local Government Act 2003.	CAs can borrow for spending transport-related projects in line with usual prudential rules that would be applied to councils.	All CAs.	Moderate - high	In principle, this gives significant flexibility. However, borrowing needs to be financed in future – which requires certainty over future revenue streams.	Low - moderate	Borrowing limited to funding transport investment, but with control over where for transport.
9 **Raising:** moderate/high **Spending:** low	**Bus franchising powers**	Yes	Bus Services Act 2017	Where applicable, CAs are able to set the rules for local bus services, including the routes, timetables and fares. Where this happens, Bus Services Operator Grant will be paid to the CA and the CA will need to pay for the running costs of any franchised services. CAs would also be able to raise revenue from bus fares.	Current mayoral CAs have this power (although the North of Tyne mayoral CA does not). Non-mayoral CAs can only do so with agreement from Secretary of State and with laying of regulations. Both require consultation.	Moderate	There is an opportunity to raise revenue (if a CA chose to do so).	Low	Whilst revenue raising power is significant – spending likely to be focussed on running/ improving services.

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Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
10 **Raising:** moderate/high **Spending:** low	**Road User Charging**	Yes	Transport Act 2000	Allows for charges in respect of the use or keeping of motor vehicles on roads.	Can be introduced by local traffic authority or Integrated Transport Authority and one or more local traffic authorities, for purposes of funding local transport plan.	High	Scheme is at the discretion of the traffic authority – can be set according to a range of criteria including time of day and type of vehicle. Can only be made if it appears desirable for the purpose of directly or indirectly facilitating the achievement of policies in the licensing authorities' local transport plans. Central government has power to require consultation/inquiry into the scheme.	Low - Moderate	Revenues are strictly hypothecated for a period of at least ten years, for spending on delivery of local transport plan. After this hypothecation period spending must be on things that 'offer value for money', and the legislation provides for central government to issue guidance.

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11 **Raising:** moderate/high **Spending:** low	**Workplace Parking Levy**	Yes	Transport Act 2000	Introduction of licensing scheme for workplace parking.	Can be introduced by local traffic authority, for purposes of funding local transport plan.	Moderate	Levy can vary by a range of factors. Can only be made if it appears desirable for the purpose of directly or indirectly facilitating the achievement of policies in the licensing authorities' local transport plans. Central government has power to require consultation/inquiry into the scheme. Note that this is moderate raising domain because levying power is constrained to workplaces.	Low - moderate	Revenues are strictly hypothecated for a period of at least ten years, for spending on delivery of local transport plan. After this hypothecation period spending must be on things that 'offer value for money', and the legislation provides for central government to issue guidance.
12 **Raising:** low **Spending:** moderate/high	**Mersey Tunnels**	Yes	Mersey Tunnels Act 2004	Toll for using Mersey Tunnels.	Only available in Liverpool City Region CA.	Low	Can only ordinarily be raised by an amount linked to inflation (RPI). Further changes need agreement from Secretary of State.	Low - moderate	Part hypothecated for spending related to the tunnels. Any excess can now be used (since 2004 Act) to contribute to delivery of local transport plan.

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13 **Raising:** low **Spending:** low	**Tyne Tunnels**	Yes	River Tyne (Tunnels) (Revision of Tolls) Order 2018, River Tyne (Tunnels) Order 2005(b).	Toll for using Tyne Tunnels.	Only available in North East CA.	Low	Can only ordinarily be raised by an amount linked to inflation (RPI). Further changes need agreement from Secretary of State and Order to be laid in Parliament.	Low	Completely ring fenced for running the tunnels or to contribute to tunnels' reserve.
14 **Raising:** moderate/high **Spending:** low	**Transport Levy**	Yes	Set out in Order establishing CA and Transport Levying Body Regulations (amendments).	CAs that have taken on transport functions also have powers to charge a Transport Levy on their constituent councils.	For all CAs that are Transport Levying Body – level varies by CA and set by CA.	Low - Moderate	Levy is set by the CA, but scale is determined by the extent of transport functions conferred to the CA – these are set out in the establishment order.	Low-moderate	Limited to spending on transport functions.
15 **Raising:** low **Spending:** moderate/high	**The City Region Sustainable Transport Settlements**	Yes	Budget	These are multi-year financial settlements, with the first one running from 2022/23 to 2026/27. It is expected that subsequent five-year settlements will follow.	Available for eight large metropolitan areas: West Midlands; Greater Manchester; Liverpool City Region; the North East; the Tees Valley; West Yorkshire; Sheffield City Region; and the West of England.	Low	Funding is allocated by central government based on CA bids.	Moderate	Funding tied to transport investment, but there's scope for CAs to define their local priorities and needs.

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16 **Raising:** low **Spending:** low	**Active Travel Fund**	Yes	Government announcement.	The grant supports local transport authorities with producing cycling and walking facilities. Announced in May 2020 and delivered in two tranches. The first was to support the installation of temporary projects in relation to the COVID-19 pandemic. The second supports the creation of longer-term projects.	Available in all CA areas.	Low	Funding allocated by central government.	Low	Ringfenced for active travel schemes.
17 **Raising:** low **Spending:** moderate/high	**Transforming Cities Fund**	Yes	Announced in Autumn Budget 2017.	A five-year (2018 – 2023), £1.7 billion fund focused on improving intra-city connectivity in England's City Regions. All capital funding. Note that the final year has now been subsumed into the City Region Sustainable Transport Settlement.	Six mayoral CAs received a total of £1.08 billion in fixed allocations, funding varied but was on a per capita basis. Non-mayoral CAs (and SYMCA) are required to bid into the remaining pot in a competitive process.	Low	Mayoral CAs receive fixed allocation, over a fixed time period. Non-mayoral CAs will need to compete to get funds.	Low - moderate	Mayoral CAs can invest in strategic investment priorities, as determined by the CA. Likely to form part of the 'Single Pot'. Non-mayoral CAs need to have expenditure agreed through competitive process.

Table 4: Non transport-related financial freedoms

		SCOPE				LEVEL OF COMBINED AUTHORITY (CA) CONTROL			
Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
18 **Raising:** low **Spending:** moderate/high	**Funding from constituent councils**	Yes	Set out in Order establishing CA.	The constituent councils must meet any reasonably incurred costs of the CA, for a set of activities prescribed in the Order.	Extent of responsibilities (and, such, scope of the funding requirement) varies between CAs.	Low	Determined with constituent councils. No certainty over future of funds.	Moderate	Scope of spending restricted by Order under which CA was established.
19 **Raising:** low **Spending:** moderate/high	**Housing Investment Fund**	Yes	Devolution deal	A loan from the government which CA can use to lend to local developers to help them to fund quicker housing delivery in the local area.	Only available in Greater Manchester CA.	Low	Amount fixed and agreed with national government.	Low - moderate	Must be on housing. Recent changes have increased flexibility to recycle funds between years.
20 **Raising:** low **Spending:** low	**Housing Infrastructure Fund**	Yes	Devolution deals	Competitive capital grant provided to councils and CAs to acquire land, deliver physical infrastructure and invest in housing. Runs in the period 2018-19 to 2023-24.	Available in CAs - amounts vary by CA.	Low	Competitive process – fund total is currently £4.35 billion (source). CAs will need to be successful in bidding/ negotiating with Government for grant.	Low	Tied to specific projects.

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Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
21 **Raising:** low **Spending:** low	**Work & Health Programme funding**	Yes	Devolution deal	Portion of national Work and Health Programme budget devolved to CA so that they can co-design and commission the service.	Only available in Greater Manchester CA (and London) – devolution deal agreed the devolution of control over funding for the Work and Health Programme.	Low	Determined nationally (and matched through European Social Fund).	Low	Ring-fenced for Work and Health Programme. No flexibility apart from over who to commission.
22 **Raising:** low **Spending:** moderate/high	**Life Chances Fund**	Yes	Devolution deal 2016	Bringing together of existing funding streams (eg national Troubled Families programme, Life Chances Social Investment Fund) into one coordinated pot.	Only available in Greater Manchester CA.	Low	Fixed amount from central government.	Moderate	The CA will agree with the Government what the fund should achieve, and must make sure that the fund is spent to deliver these agreed outcomes. Within this, GMCA will be able to make their own investment decisions.
23 **Raising:** low **Spending:** moderate/high	**Health & Social Care**	Yes	Devolution deal	More influence over £6 billion spending in City Region each year, and £450 million of 'Transformation Fund' up to 2021.	Only for Greater Manchester.	Low	Existing funds – no extra revenue raising power.	Moderate - high	Spending limited to health and social care – but this is a large, important and high priority area.

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Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
24 **Raising:** low **Spending:** moderate/high	**Adult Education Budget**	Yes	Devolution deals (and secondary legislation).	Brings together funding for adult education, outside of apprenticeships and loan funding for higher-level skills provision; Community Learning; and Discretionary Learner Support (help with extra costs to overcome barrier to learning).	Available for Mayoral CAs.	Low	An amalgamation of existing funds – no extra revenue raising power.	Moderate	Spending potentially limited to adult education – but with flexibility within that.
25 **Raising:** low **Spending:** moderate/high	**Mayoral Capacity Fund**	Yes	Currently set on an annual basis.		Available to mayoral CAs.	Low	Grant funding – but a small amount.	Moderate	Spending limited to boosting the new mayors' capacity and resource.
26 **Raising:** low **Spending:** moderate/high	**Community Renewal Fund**	Yes	The Community Renewal Fund is provided pursuant to section 50 of The United Kingdom Internal Market Act 2022.	£220 million fund to bridge the transition from EU Structural and Investment Funds to the UK Shared Prosperity Fund. Emphasis for places to be able to invest in their local needs.	'All places' in GB are eligible to apply, with the 'lead authority' for bids being either mayoral CAs, Greater London Authority (GLA), county councils and unitary authorities. However, there are '100 priority places' whose bids will be prioritised.	Low	Grant funding – CAs can only affect the amount they bid for.	Moderate	CRF bids were allowed under four categories: investment in skills; investment for local business; investment in communities and place; supporting people into employment.

		SCOPE				LEVEL OF COMBINED AUTHORITY (CA) CONTROL			
Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
27 **Raising:** low **Spending:** low	**The Levelling-Up Fund**	Yes	Announced in the 2020 Spending Review.	The £4.8 billion fund will support town centre and high street regeneration, local transport projects, and cultural and heritage assets.	County councils with transport powers, combined authorities, mayoral combined authorities and the Greater London Authority (GLA) are eligible to submit one transport bid (although constituent members can bid for other projects).	Low	Grant funding – CAs can only affect the amount they bid for.	Low	Must be spent on transport related projects.
28 **Raising:** low **Spending:** low	**Brownfield Fund**	Yes	Announced in 2020 Budget.	As part of the levelling-up agenda, the Budget in 2020 launched a £400 million brownfield fund for 'pro-development councils and ambitious mayoral CAs' with the aim of creating more homes by bringing more brownfield land into development.	Seven mayoral CAs have been granted money from the fund.	Low	Grant funding – CAs had to bid for funding.	Low	Must be spent on brownfield projects.

		SCOPE				LEVEL OF COMBINED AUTHORITY (CA) CONTROL			
Quadrant of freedom	**INSTRUMENT**	**Currently feasible?**	**Legislative route**	**Commentary**	**Variation in powers across CAs**	**Raising domain**	**Commentary**	**Spending domain**	**Commentary**
29 **Raising:** low **Spending:** moderate/high	**Get Building Fund**	Yes		A £900 million fund, '… to deliver jobs, skills and infrastructure across the country'. Intended for 'shovel ready infrastructure projects'.	Several CAs have been allocated funding as part of the scheme.	Low	Grant funding – CAs had to bid for funding.	Moderate	Must be spent on infrastructure projects, but not applied to a specific type of infrastructure.
30 **Raising:** moderate/high **Spending:** moderate/high	**Borrowing powers – mayoral CAs**	Yes	The Combined Authorities (borrowing) regulations 2018.	Mayoral CAs have further borrowing powers to meet non-transport related CA responsibilities – for example economic regeneration or housing.	Available to all mayoral CAs with agreed debt caps with HM Treasury.	Moderate - High	In principle, this gives significant flexibility. However, borrowing needs to be financed in future – which requires certainty over future revenue streams.	Moderate	Borrowing limited to CA Functions (other than transport), but with control within those functions.

Commentary: financial freedoms available

The analysis in tables 2, 3 and 4 shows that the overwhelming majority of combined authority financial freedoms come with some central government restrictions on how funding is raised and/or how it is spent.

This is typically a result of the legislation that underpins a particular freedom or the negotiation with central government. For example, a number of the available freedoms are limited by statute on the spending domain to be used to fund investment in transport infrastructure. Equally, devolution deals have placed limits on both the raising and spending domains, for example by having made explicit agreements about the scale of grant funding available to combined authorities to spend on a specific area.

Our 2018 research concluded that it is more appropriate to consider combined authorities as having financial control, rather than financial freedom. In other words, they have some control over how money is raised in order to meet a certain function, or they have some control over how the money is spent, within broad envelopes, once it has been raised. They do not necessarily have freedom to do both of these things together.

The conclusion remains for this research, with some key examples highlighted below.

Gainshare/Investment Fund Grant

In all mayoral combined authorities, apart from Greater Manchester Combined Authority (GMCA), Gainshare (or Investment Fund Grant) is an amount agreed between central government and the combined authority as part of the devolution deal. It can then be used to meet the functions of the mayor's office.

This means that Gainshare/Investment Fund ranks 'low' on the raising domain – there is no local control over how the money is raised.

The instrument does, however, rank 'moderate' in the spending domain. There is some local control, within broad boundaries agreed with central government, over how the money is spent. For most combined authorities how the funding is split in terms of revenue and capital allocations is agreed by central government (some combined authorities expressed a desire for this split to be removed so that it is all revenue, something that is discussed in the following section).

Road user charging

Combined authorities which act as the local traffic authority have the power to introduce a Road User Charging scheme. The nature of the scheme can be determined by the combined authority, and there are a wide range of different schemes (with different rates and overall revenues) that could be envisaged. However, the revenue can only be used to fund projects as part of the local transport plan. This means that it ranks 'high' on the raising domain, but only 'moderate' on the spending domain; there is local control over how the money is raised (and who from) and some local control over how the money is spent, again within broad boundaries agreed with central government.

Mayoral precept

All mayoral combined authorities also have the power to raise a mayoral precept on Council Tax, with the exception of the West of England Combined Authority (WECA).

Overall, this freedom has been classified as 'moderate' on both the raising and spending domains. This is because, the extent of raising freedom is limited by central government setting a threshold over which increases become 'excessive' and requiring a local ballot if this happens. Spending freedom is limited by central government to areas over which the mayor has authority. This does represent some constraint (although noting that the areas of responsibility can be viewed quite broadly).

It is important to note, however, that the extent of limitation on the raising domain is yet to be determined, as the Secretary of State sets threshold limits for precepts each year and these can vary. So far no limits have been set on mayoral precepts, however (as shown below) only two mayoral combined authorities (GMCA and Liverpool City Region) have so far elected to use their precepting powers.

While assessed as 'moderate' on both domains, mayoral precepts could play an important role in opening up the possibility of using more financial freedoms. This is because mayoral precepts could provide a reliable and consistent source of revenue for mayoral combined authorities. Within this context – and aside from the possibility of central government imposing a constraint – mayoral combined authority decision-making structures have to agree to implement a precept themselves.

Given the relatively stable nature of the council tax base, this revenue source could also be used to open up the opportunity for borrowing. This could be particularly attractive given the relatively small number of alternative revenue streams 'owned' by mayoral combined authorities.

Variation in freedoms

It is also clear that combined authorities do not all have the same financial freedoms; both in terms of the fiscal instruments they have access to, and the extent of spending control which they have.

The most obvious distinction is between mayoral and the non-mayoral combined authorities, where mayoral combined authorities have been granted wider freedoms in both the raising and spending domains. On the raising domain, examples include the mayoral precept and the power to borrow. On the spending domain, an obvious example is the Single Pot where existing streams of grant funding are combined into a single budget to provide more flexibility.

The rationale here is clear; the Government has devolved policy and delivery responsibilities in a range of areas covered by the mayors and, alongside these, financial freedoms have been granted in an attempt to provide the necessary flexibility for mayors to meet their local priorities.

There are also variations between the mayoral combined authorities. For example:

- Both GMCA and West Yorkshire Combined Authority have taken over the role of the Police and Crime Commissioner. Each of these roles/responsibilities come with the power to raise a precept that can be used to fund all or part of these responsibilities.
- Both Liverpool City Region Combined Authority (Mersey Tunnels) and North of Tyne Combined Authority/North East Combined Authority (Tyne Tunnels) get funding from road tolls.
- The West of England Combined Authority does not have a mayoral precept power.

It is also worth noting that, GMCA generally has a wider range of financial freedoms available to it than other mayoral combined authorities, because it is further on in the devolution process than others.

Fallen financial freedoms

Some financial freedoms that combined authorities have had access to are no longer in place/will not be renewed. Others have previously been promised but not materialised. In particular, those that had originally been included in the Local Government Finance Bill in 2016-17, which did not pass into law because of the General Election held in 2017. These past freedoms are included in this report as useful context (see Table five, below), and because some were referenced during interviews as examples of good practice in implementing financial freedoms in contrast to some more recent financing mechanisms.

Table 5: Fallen financial freedom instruments for combined authorities

Quadrant of freedom	INSTRUMENT	History	Commentary	Variation in powers across CAs	Raising domain	Commentary	Spending domain	Commentary
1 **Raising:** moderate/high **Spending:** moderate/high	**Mayoral Infrastructure Levy**	Local Government Finance Bill 2016-17 (but the bill fell). No current intention to revisit.	Ability to introduce a supplement on Business Rates (of up to 2p in the pound) to raise funds for infrastructure projects on a project that the authority is satisfied will promote economic development in its area.	Only applicable to mayoral CAs.	Moderate	Can raise supplement after consulting with affected businesses and issuing a prospectus. No need to ballot. Can vary by up to 2p in the pound. Note that where more than one Infrastructure Levy is in place, combined value must not be more than 2p in the pound.	Moderate	Can only be spent on the project to which the supplement relates or in paying off loans made for the project.
2 **Raising:** moderate/high **Spending:** moderate/high	**New 'Enterprise Zones'**	Local Government Finance Bill 2016-17 (but the bill fell). No current intention to revisit.	As part of plan to introduce 100 per cent Business Rate retention, some authorities were to be given powers (through regulations from Secretary of State) to exempt specific areas from calculations across the pooled area – in effect creating locally-determined Enterprise Zones where increased Business Rates are fully retained locally (and any losses also absorbed).	Would have been applicable within authorities as specified in Local Government Finance Act 2012 and amended by the fallen Bill.	Moderate	Allocation of Enterprise Zones would have allowed for use of tax increment finance. Boosting potential borrowing power of CAs.	Moderate	In principle, increased revenues could be spent as the CA saw fit. As this is likely to be tied to Tax Increment Finance – future funds would probably need to be earmarked for debt repayment.

Quadrant of freedom	INSTRUMENT	History	Commentary	Variation in powers across CAs	Raising domain	Commentary	Spending domain	Commentary
3 **Raising:** moderate/high **Spending:** moderate/high	**New taxes – eg Tourist Tax**	N/A	No existing basis for new taxes to be levied at a local level (including, but not limited to, CAs). Would require (Primary) Legislation, likely to be significant time before this is a viable option. Otherwise would need to be undertaken through voluntary agreement with industry/area impacted.	N/A	High	New local tax would (presumably) provide significant flexibilities for CAs to determine the rate and structure of the instrument.	Moderate - high	In principle, new taxes could be levied without specification of where it would be spent. However, in practice, to gain buy-in it is likely that revenue from new taxes would need to be attached to specific areas of expenditure.
4 **Raising:** low **Spending:** moderate/high	**Local Growth Fund**	Devolution deals	A competitive fund for Local Enterprise Partnerships (LEPs) and council partners to invest in projects to improve each CA. The LGF is made up of a range of different funding streams, including ‘flexible’ funding that can be spent on a range of local growth priorities, and funding for particular projects.	Available to CAs where CA and LEP have agreement to do so/CA is the accountable body.	Low	Fixed amount from central government.	Moderate	Where available to Mayoral CAs it forms part of Single Pot (see below for detail).

Quadrant of freedom	INSTRUMENT	History	Commentary	Variation in powers across CAs	Raising domain	Commentary	Spending domain	Commentary
5 **Raising:** moderate high **Spending:** low	**Strategic Infrastructure Tariff**	Consultation: Supporting housing delivery through developer contributions.	This would extend current powers of Mayor of London to levy a Community Infrastructure Levy. It would be a charge (per square meter) on developers.	CAs	Moderate	Set by the authority and based on total level of development.	Low	Needs to be spent on providing necessary additional infrastructure required for the development or funding of a specific project.
6 **Raising:** low **Spending:** moderate/high	**Land Remediation Fund**	Devolution deals	Grant funding from government to CA focussed on bringing brownfield land back into use for housing and employment.	Available in GMCA and West Midlands CA – but part of housing package, rather than as part of devolution/CA freedoms.	Low	Agreed with central government as part of devolution deal. Fixed over a given period of time.	Low-moderate	Specifically for remediation activity – but with flexibility within that category.
7 **Raising:** low **Spending:** low	**Apprenticeship Grant**	Devolution deals	A grant devolved as part of devolution deals, however national scheme is now closed.	Amounts vary by mayoral CA.	Low	Fixed amount from central government.	Low	Mayoral CAs had ability to design criteria, but within fairly tight constraints.

Financial freedoms in Greater London

The Greater London Authority (GLA) was created by an Act of Parliament in 1998, with the first elections held on 4 May 2000. Thus, the creation of the GLA preceded the creation of combined authorities and has its own set of financial freedoms. Some of those are identical to those that can be accessed by combined authorities, but some are different.

Table 6: Financial freedoms related to London

Financial Freedom	Commentary
Council Tax Precept Aligned with combined authorities	The precept operates as it does for combined authorities. It is collected by London's boroughs and the Corporation of London. Note that there are two sets of council tax calculations because the Metropolitan Police District does not include the City of London, which has its own police force.
Transport levies (congestion charge, emissions levy and Ultra Low Emission Zone levy) Aligned with combined authorities	Available to all combined authorities through the powers conferred by the Local Transport Act 2008.
Business Rate Retention Scheme Aligned with combined authorities	As with combined authorities and other council areas, the GLA is part of the pilot that sees business rates revenue retained locally.
Mayoral Community Infrastructure Levy Not aligned with combined authorities	The Mayoral Community Infrastructure Levy was originally introduced in 2012 to help finance Crossrail. Community Infrastructure Levies are available to councils to implement, but not combined authorities. It has previously been suggested by the Government that instead combined authorities would be able to charge a Strategic Infrastructure Tariff.
The Crossrail Business Rates Supplement Not aligned with combined authorities	In April 2010, the Mayor introduced a two pence (2p) business rates supplement on larger non-domestic properties in London. Since April 2017, this has only applied to business premises with a rateable value of over £70,000. This is helping to pay for Crossrail. This power was meant to be available to combined authorities through the Local Government Finance Bill 2016-17.

4 Use of financial freedoms

The use of financial freedoms is not just about the freedom being available. It is also clear that, even when they are uniformly available across combined authorities, there can be variation in both the practical nature of freedoms (for instance size of grant) and the specific use of the freedoms (including whether and how the freedoms are actually used in each combined authority).

Tables 7, 8 and 9 build on Section 3 to outline more detail of the nature of the freedoms available in each of the combined authorities and a summary of whether the freedoms have been used.

The tables have been split into the same three categories:

1. **Fundamentals of financial freedoms.** The basis of financial freedoms for each combined authority. Including how the Single Pot is made up, and what the revenue/capital split of Gainshare is.
2. **Transport-related financial freedoms.** Many combined authority powers relate to transport, with many financial freedoms geared towards this area of policy.
3. **Non-transport-related financial freedoms.** To provide a sense of the other areas of influence that combined authorities have.

Table 7: Availability and use of fundamental financial freedoms, by combined authority

FUNDAMENTALS OF FINANCIAL FREEDOMS

INSTRUMENT	CPCA	GMCA	LCRCA	NECA	NoT	SYMCA	TVCA	WECA	WYCA	WMCA
Business Rates Retention Pilot	No	Yes	Yes	No	Yes	Yes	No	Yes (5 per cent allocated to CA)	No	Yes
Business Rate Supplement	Yes – not used	No	Yes – not used	No	No	No	No	Yes – not used	Yes – not used	Yes – not used
Mayoral Precept	Yes – not used	Yes – in use	Yes – in use	No	Yes – not used	Yes – not used	Yes – not used	No	Yes – not used	Yes – not used
Other precepts – Fire & Rescue (F&R), Police & Crime Commissioner (PCC)	No	F&R, PCC	No	No	No	No	No	No	PCC	No
Gainshare/ Investment Fund Grant	£20 million per year for up to 30 years. 40:60 revenue: capital split.	£30 million per year for up to 30 years. Variable over time.	£30 million per year for up to 30 years. 25:75 revenue: capital split.	N/A	£20 million per year for up to 30 years. 100:0 revenue: capital split.	£30 million per year for up to 30 years. 40:60 revenue: capital split.	£15 million per year for up to 30 years of revenue funding.	£30 million per year for up to 30 years. 50:50 revenue: capital split.	£38 million per for up to 30 years. 75:25 revenue: capital split.	£36.5 million per year for up to 30 years. 100:0 revenue: capital split.
'The Single Pot'	Transport Grant, Investment Fund, AEB	Investment Fund, Transport Grant, AEB, LGF	Transport Grant, Investment Fund, AEB	N/A	Investment Fund, AEB	No	Gainshare, Investment Fund, AEB, Brownfield Housing, Transport Grants.	Transport Grant, Investment Fund, AEB	Gainshare, Transport Grant, Brownfield Housing Fund, AEB	Transport Grant, Investment Fund, LGF, AEB

Table 8: Availability and use of transport-related financial freedoms, by combined authority

TRANSPORT RELATED FINANCIAL FREEDOMS

INSTRUMENT	CPCA	GMCA	LCRCA	NECA	NoT	SYMCA	TVCA	WECA	WYCA	WMCA
Transport Borrowing powers – Combined Authorities	Available	Available	Available	Available	No	Available	Available	Available	Available	Available
Bus Franchising/ Enhanced Partnership	The business case considering both franchising and enhanced partnership is being developed	Franchising	Franchising is the 'leading option' at the time of writing (source)	Enhanced partnership	Enhanced partnership	Enhanced partnership	Enhanced partnership	Enhanced partnership	Enhanced partnership	Enhanced partnership, but currently re-evaluating enhanced partnership vs. franchising arrangement
Road User Charging	No	No	No	No	No	No	No	No	No	No
Workplace Parking Levy	No	No	No	No	No	No	No	No	No	No
Mersey Tunnels	N/A	N/A	£26.2 million in 2020/21 – heavily affected by the pandemic (source)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tyne Tunnels	N/A	N/A	N/A	£11.4 million (source)	£9.2 million in 2020/21 (source)	N/A	N/A	N/A	N/A	N/A

INSTRUMENT	CPCA	GMCA	LCRCA	NECA	NoT	SYMCA	TVCA	WECA	WYCA	WMCA
Transport Levy	£13.0 million in 2021/22 (source)	£86.7 million (source)	£97.4 million in 2020/21 (source)	£49.4 million in 2020/21 (source)	£33.5 million in 2020/22 (source)	£54.4 million in 2021/22 (source)	No	£21.0 million in 2021/22 (source)	£92.2 million in 2022/23 (source)	£114.7 million in 2021/22 (source)
City Region Sustainable Transport Settlement	No (Not one of the seven largest city regions so ineligible)	£1.2 billion 2022-2027 (source)	£792.4 million 2022-2027 (source)	No	No	Between £660 million 2022-2027 (source)	£310 million 2022-2027 (source)	£540 million 2022-2027 (source)	£830 million 2022-2027 (source)	£1.1 billion over 2022-2027 (source)
Active Travel Fund (final allocation phase)	£1.7 million (source)	£15.8 million (source)	£7.9 million (source)	£9.0 million (with NoT) (source)	£9.0 million (with NECA) (source)	£5.5 million (source)	£1.7 million (source)	£2.9 million (source)	£10.0 million (source)	£13.1 million (source)

Table 9: Availability and use of non transport-related financial freedoms, by combined authority

NON-TRANSPORT RELATED FINANCIAL FREEDOMS

INSTRUMENT	CPCA	GMCA	LCRCA	NECA	NoT	SYMCA	TVCA	WECA	WYCA	WMCA
Funding from constituent councils	£0 million	£0 million	£4.6 million in 2020/21 (source)	£161,000 (source)	£111,000	£0 million	£0 million	£4.6 million in 2020/21 (source)	£0 million	£5.1 million in 2021/22 (source)
Transforming Cities Fund	£30 million 2021/22 (source) (note that this includes Capital Gainshare)	£312.5 million (source)	£12.2 million in 2020/21 (source)	£13.9 million (source)	£11.2 million (source)	£166 million 2019/20 – 2022/23 (source)	£18.0 million (source)	£48.0 million in 2021 (source)	£169.1 million (source)	£60.0 million in 2020/21 (source)
Housing Investment Fund	No	£300 million over ten years.	No	No	No	No	No	No	No	No
Non-transport borrowing powers	Available	Available	Available	No	Yes	Available	Available	Available	Available	Available
Work & Health Programme Funding	No	£3.7 billion (source)	No	No	No	No	No	No	No	No
Local Growth Fund	£35.7 million 2020/21 (Figure provided by CA)		£87.8 million in 2020/21 (source)	Controlled by LEP	£409,000 (source)	£43.2 million in 2020/21 (source)		£22.9 million in 2020/21 (source)	No	£530,000 in 2020/21 (source)
Adult Education Budget	£11.5 million in 2021/22 (source)	£97.9 million in 2021/22 (source)	£51.2 million in 2020/21 (source)	N/A	£22.7 million in 2020/21 (source)	£30.6 million in 2021/22 (source)	£29.6 million in 2020/21 (source)	£15.1 million in 2020/21 (source)	£64.2 million in 2022/23 (source)	£131.9 million in 2020/21 (source)
Mayoral Capacity Fund	£1 million in 2021/22 (source)	£1 million in 2021/22 (source)	£1 million in 2020/21 (source)	No	£1 million in 2021/22 (source)	£1.3 million in 2020/21 (source)	£1 million in 2020/21 (source)	£1 million in 2020/21 (source)	£500,000 in 2022/23 (source)	£1 million in 2020/21 (source)

INSTRUMENT	CPCA	GMCA	LCRCA	NECA	NoT	SYMCA	TVCA	WECA	WYCA	WMCA
Brownfield Housing Fund	No	£97 million (source)	£10.3 million in 2020/21 (source)	No	£551,000 (source) (this is RDEL, with £24 million CDEL over 5 years)	£46.0 million in 2020/21 (source)	£4.7 million 2020/21 (source)	£39.6 million in 2020/21 (source)	£20 million in 2021/22 (source)	£39.6 million in 2020/21 (source)
Community Renewal Fund	£3.4 million (source)	£4.4 million (source)	£2.8 million (source)	No	£1.5 million (source)	£8.2 million (source)	£1.6 million (source)	£2.5 million (source)	£2.5 million 2021/22 (source)	£5.4 million (source)
Levelling-Up Fund	No	£19.8 million (source)	£37.5 million (source)	No	No	No	No	No	No	No
Getting Building Fund	£7.3 million in 2020/21 (source)	£54.2 million (source)	£26 million in 2020/21 (source)	No	£47 million in 2021/22 (source) (Includes both North East and North of Tyne CAs)	£33.6 million in 2020/21 (source)	£17.4 million in 2020/21 (source)	£13.7 million in 2020/21 (source)	£44.6 million	£4.0 million in 2020/21 (source)

Commentary: use of freedoms

Overall, Table four demonstrates that there are significant differences between combined authorities, both in how freedoms are structured in practice and how or whether the freedoms are actually used.

Variation in freedoms

Mayoral precept

Whilst available to all mayoral combined authorities (apart from the West of England Combined Authority, whose devolution deal did not allow for a mayoral precept), only two mayoral combined authorities (Greater Manchester and Liverpool – see Box 1) have chosen to levy a mayoral precept on council tax to provide finances for mayoral functions.

For the other mayoral combined authorities, the decision not to levy a mayoral precept has been the result of a number of factors including: Mayors being elected on a manifesto of not using precepting powers (for example Tees Valley), a lack of internal agreement to raise a precept, and/or concerns about the impact of a precept on residents during a period when the cost of living is high.

Gainshare/investment fund grant

There are also variations in the specification of freedoms that have been provided to all or many combined authorities. For example, all mayoral combined authorities have been provided with Gainshare/investment fund grant as part of their devolution deals, however in practice, the nature of these are different across the combined authorities.

A key difference is the allocation between revenue and capital funding. Most mayoral combined authorities have grants weighted towards capital funding, with a range between 25 (revenue): 75 (capital) for Liverpool City Region Combined Authority and 40 (revenue): 60 (capital) for South Yorkshire Mayoral Combined Authority. However, West Yorkshire Combined Authority has a split of 75 (revenue): 25 (capital) and it is worth noting that both the original proposed North East Combined Authority Devolution Deal and the prospective deal for North of Tyne have 100 per cent revenue funding.

Box 1 Greater Manchester Combined Authority and Liverpool City Region's use of mayoral precepts

The Mayor of Greater Manchester Combined Authority has the power to levy two precepts on council tax bills. These cover functions taken on from the previous Police and Crime Commissioner and the general mayoral precept that covers fire and rescue services and any additional funding for the Mayor's functions.

The table below outlines the per household cost of each of these elements in 2020/21 in Manchester. The mayoral precept and fire and rescue services precept are part of what has been called the 'Mayoral General Precept (including Fire Services)'.

GMCA	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Mayoral General Precept (including Fire) by Band 2021/22	£60.63	£70.73	£80.84	£90.95	£111.16	£131.37	£151.58	£181.90

Liverpool City Region Combined Authority's precept has been frozen for 2021/22, with rates by council tax band set out in the table below. Unlike Greater Manchester Combined Authority, Liverpool City Region Combined Authority does not have responsibility for Police and Crime Commissioner functions or Fire and Rescue Services.

LCRCA	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Precept by Band 2021/22	£12.67	£14.78	£16.89	£19.00	£23.22	£27.44	£31.67	£38.00

Freedoms yet to be used

The previous report highlighted that some headline financial freedoms – bus franchising and borrowing being good examples – had not yet been used. One of the key reasons for this was that a number of the financial freedoms had only just been granted, and time was needed for combined authorities to develop strategies and detailed financial (and delivery) plans for how the freedoms would be used.

The following sets out the current status of these previously unused financial freedoms.

Bus franchising/enhanced partnerships

Powers over bus franchising were provided in the Bus Services Act 2017. All existing mayoral combined authorities have been granted automatic access to franchising powers (although the potential North of Tyne Mayoral Combined Authority has not, as transport powers are held jointly with the North East Combined Authority) and other combined authorities can access powers with agreement of the Secretary of State and subsequent legislation.

Bus franchising is not the only option for combined authorities. The Bus Services Act 2017 also provided for a statutory arrangement called an enhanced partnership, which can specify, for example, timetables and multi-operator ticketing. The main difference compared to franchising is that operators have a much greater role, working with Local Transport Authorities (LTAs) to,

> "…develop and deliver improvements for passengers and having a real say on how bus services should be improved" (Department for Transport, 2021).

LTAs were set requirements to access Covid Bus Service Support Grant from April 2022, which included each LTA to have an enhanced partnership in place or be following the statutory process to decide whether to implement a franchising scheme.

At the time of writing, combined authorities are taking different approaches (see Table 10).

Table 10: Combined authority approach to bus franchising and enhanced partnership

Combined authority	Approach
Greater Manchester Combined Authority	Mayor has approved plan for franchising, which was subject to judicial review after some bus operators claimed there was a flawed consultation process; the judicial review found in GM's favour.
Liverpool City Region Combined Authority	Has developed its Bus Service Improvement Plan, which states that it will announce its lead option – either franchising or enhanced partnership – in early 2022.
Cambridgeshire and Peterborough Combined Authority	Still conducting the business case assessment of bus franchising, involving discussions with operators.
West of England Combined Authority	At the time of writing were in discussions with operators about implementing an enhanced partnership.
West Midlands Combined Authority	Has gone through the legislative process and implemented an enhanced partnership arrangement, which has a Strategic Vision for Buses. Currently re-evaluating the enhanced partnership vs. franchising debate.
Tees Valley Combined Authority	Going through the process of an enhanced partnership.
South Yorkshire Combined Authority	In June 2021, the MCA committed to an enhanced partnership, with the aim of becoming operational from April 2022.
North of Tyne Combined Authority	No automatic franchising powers.
West Yorkshire Combined Authority	Implementing enhanced partnership to be established in April 2022.
North East Combined Authority	Implementing an enhanced partnership in April 2022.

Our previous report highlighted the approach needed to develop these schemes (see Box 2), and three years later progress has been made, but understanding the benefits of franchising versus enhanced partnerships is still very much in its infancy.

However, it remains the case that the potential for these schemes is significant. They could provide the opportunity to coordinate bus services across the combined authority, potentially providing better, more efficient, cheaper and more reliable links for people to access jobs, housing, education, healthcare and a range of social activities. They also give combined authorities greater financial control. This comes with risks, but also opportunities; Transport for London (TfL) receives around £1.5 billion a year in fares through their franchised bus services.

Box 2 Assessment of bus franchising schemes

The Bus Services Act 2017 outlines that the combined authority seeking to introduce a bus franchising scheme must produce an assessment that:

1. describes the effects that the proposed scheme is likely to produce, and
2. compares making the proposed scheme to one or more other courses of action.

The assessment must also include consideration of:

a) whether the proposed scheme would contribute to the implementation of the local transport plan and/or the implementation of neighbouring authorities' local transport plans

b) how the authority or authorities would make and operate the proposed scheme

c) whether the authority or authorities would be able to afford to make and operate the scheme

d) whether the proposed scheme would represent value for money

e) the extent to which the authority or authorities are likely to be able to secure that local services are operated under local service contracts.

The assessment must then be audited by an independent person, before any decision is made. Guidance on this assessment and the auditing and consultation process has been published by the Department for Transport (see DfT, (2017), The Bus Services Act 2017 franchising scheme guidance. DfT, London).

Borrowing

The 2018 research found that the ability to borrow to fund mayoral priorities had not been widely used. Again, one reason for this was that the powers had only recently been granted and frameworks/limits agreed with HM Treasury. As such, it was unsurprising that these have not yet been extensively used. The report concluded that,

> "…this freedom would be an obvious way in which to fund long-term investments to deliver Mayoral priorities".

However, a note of caution was also raised by some combined authorities during interviews for the 2018 research - that borrowing was only a feasible option with a steady and guaranteed revenue stream through which repayments could be financed in future. Even those authorities in receipt of significant revenue-based Investment Fund Grant and/or Local Growth Funds highlighted that these were only committed in the short term, meaning that they were not something against which they could secure long-term borrowing or develop strategic plans. This concern was amplified by the fact that the constituent members of each combined authority would have to take the burden of future debt if combined authority revenue streams were not secured.

Indeed, this was something echoed by several combined authorities in interviews for this research. References were made to needing the confidence in being able to generate the cashflows to service longer-term debt, and that a culture of long-termism was needed in projects that the borrowing would fund.

More generally, there was a legislative hurdle to clear for two combined authorities – West Yorkshire Combined Authority and South Yorkshire Combined Authority – to be able to access borrowing powers (at the time of writing, the relevant legislation was due to be taken forward in early 2022).

One particular concern was raised – whether the outcome of the government's consultation on the Minimum Revenue Provision (MRP) would act to make borrowing harder. The MRP applies when authorities borrow to finance capital spend and are required to set aside money each year from their revenue account. The Government has said that it is aware that,

> "…some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP". Hence, it is looking at how it can 'strengthen' the MRP duty (DLUHC, 2021).

5 Lessons learned

To inform this project, 10 semi-structured interviews were conducted with senior officers from combined authorities and civil servants in central government. As well as contributing to our understanding of the range of financial freedoms currently available to combined authorities – and how they are used – these interviews allowed us to gain insight into the following:

- the challenges faced by combined authorities in deploying the financial freedoms currently available to them
- where financial freedoms had been utilised, the lessons learned from the experience
- what financial freedoms combined authorities want
- what has changed since the research conducted since the last report.

These interviews were held confidentially. This means that the findings have been generalised. There were some instances of combined authorities facing locally-specific barriers to using financial freedoms that were being discussed with government (and hence are not detailed while discussions were ongoing). However, the insights gained from the interviews have fed into the observations throughout the report and our recommendations for next steps on fiscal freedoms in section 6.

The main themes of the interviews are split into two sections. First, themes that have come to prominence since the research in 2018. Second, the themes that have remained prominent – or that have evolved since – the research included in the last report.

As with any research of this type, there is a tendency to focus (understandably) on the things that could work better. However, interviewees were keen to highlight that raising problems in the system should be regarded as constructive and that there are several positives attached to combined authority financial freedoms. First, combined authorities were using the financial freedoms that they have to deliver projects that will result in positive economic outcomes in their areas. Second, combined authorities have been collaborating and sharing knowledge so as to learn from each other and deliver better outcomes. Third, there is good engagement with central government, even if action to rectify issues is regarded as slow in some cases. Finally – and perhaps most importantly – any issues that have arisen with financial freedoms have done so in the context of having more autonomy as local areas than otherwise would be the case if combined authorities did not exist. It is in this context that the below findings should be read.

New themes since the 2018 research

There were four prominent headline findings which were new since the 2018 report:

1. Competitive bidding means less financial freedom

There was a general consensus that competitive bidding for funding pots had become more common in recent years. Several interviewees highlighted this to suggest that the devolution agenda had taken a backwards step in recent years. When interviewees were asked why they thought this had happened, the most prominent answers were that the politics of devolution could be a factor (with a Conservative government at odds with mostly Labour metro mayors) and that the pandemic has meant the HM Treasury taking tighter centralised control of public spending.

Aside from competitive bids meaning less financial freedom, some stated that the competitive bid process caused wider problems. First, in finding the resources to complete bids to the required standard, particularly when there was no existing expertise within a combined authority on the specific area of funding, ie housing expertise to apply for housing funding. Note that in the previous version of this research, a finding was made about the 'Catch 22 of resourcing', whereby combined authorities needed expert resource to be able to use financial instruments but needed to justify the upfront cost of this resource in the first place. This was not mentioned in this context within the latest research interviews, but a similar issue of resourcing was mentioned in relation to the Mayoral Capacity Fund.

Second, because of the short time scales sometimes required to complete bidding processes. There were also concerns raised about the process for bidding process for the Community Renewal Fund (CRF) – namely that it was too short-term and too prescriptive – and that they were concerned about what that meant for the operation of the Shared Prosperity Fund (for which the CRF is a precursor).

2. Finding local agreement on using financial freedoms can be a barrier to their use

A key finding of the 2018 report was that not using an available fiscal instrument was a clear demonstration of freedom in and of itself (an example being the decision by many combined authorities not to use the mayoral precept). In the interviews for this report, there were several examples given of how a combined authority financial freedom was available but had not been used – or was used in a different way – because of a lack of unanimity from constituent members. This mainly related to decisions around transport projects, with some being stalled because some constituent members could not see any benefit of it to them. In this context, it was noted by one interviewee that some freedoms were deployed on projects that would not necessarily have gone ahead otherwise, as some constituent members wanted some spending in return for approving projects that had more obvious benefits for other constituent members. This decision-making process also prevented the possibility of implementing new financial instruments in local areas – for instance, implementing a workplace parking levy or a business rates supplement on businesses across a combined authority area, when some parts of the combined authority area would see greater benefits than others from the revenues.

3. There is a widely regarded lack of long-termism in funding arrangements
Several stakeholders noted that there were some short timescales to spend some grant funding within a set period. The Getting Building Fund and the Brownfield Land Release Fund were highlighted as specific examples. The consequences of these short timescales are that resource get used up trying to make things happen by certain deadlines, but can also mean funds get spent on projects, that are not necessarily top of the local priority list, simply because they are more easily deliverable. There were other examples of short timescales causing problems. For instance, borrowing caps being set for two to three years when funding for capital projects is often required over a much longer period was mentioned.

A lack of clarity on some key issues around financial freedoms fed into this, with question marks hanging over the future of various aspects of the business rates system, as well as the future and quantum capacity funding (it was further argued that capacity funding had so far been inadequate, with one stakeholder suggesting that it was a fifth of the value that it should be). More generally, it was noted that political timeframes are short, but decision on major infrastructure projects needs to be long-term.

It is worth noting that the research from 2018 highlighted the uncertainty over the continuation of several future funding pots – this was mentioned sporadically in the interviews for this report but was not as prominent a message.

4. There was no widespread desire for new financial instruments
All interviewees were asked whether they would like any additional financial powers. It was notable that there were not too many calls for it. By and large, combined authorities were trying to implement – or iron out problems with – the financial freedoms that they had already, which included having a dialogue with government (such as issues around business rates retention and borrowing caps).

Continued themes from the 2018 research

Of the themes in the 2018 research, two remained prominent from the interviews:

1. The financial freedoms available are only a small step away from fiscal centralism
In the 2018 research we highlighted that the majority of interviewees acknowledged that the range of fiscal freedoms available to them had increased over the previous 10 years. However, it was also noted that the UK is starting from a system that is unusually fiscally centralised and that, while progress has been made, there has been only a small step towards addressing this fiscal centralism. It was also felt that the range of freedoms currently available had not met Government's stated ambitions since 2010.

2. It can be challenging to use existing powers effectively

Uncertainty of future funds was a prominent theme in the previous research, and a more general lack of long-termism has been a prominent theme in this research (see previous section). The counterproductive nature of restrictions and monitoring in how certain funds were spent were noted again in the latest research. A specific example was the inability to merge funding for a business support and skills programme that one combined authority had in mind. More generally, there were again some comments that resources were being directed towards areas that central government deemed a priority, rather than locally determined priorities.

6 Priorities for change

Overall, it is clear that the system of government finance in the UK remains highly centralised and that the progress towards decentralisation has stalled and has arguably gone backwards.

There is inevitably some inconsistency in how the freedoms have been provided in practice – different areas have wanted different freedoms, and these have been applied differently according to local priorities. While this means a complex landscape, this is not necessarily a problem – the preoccupation of combined authorities is wanting longer-term certainty over funding arrangements and less competitive bidding.

The 2018 report concluded that the ambition of the financial freedoms has not been realised in practice. This report concludes the same, but arguably for a broader array of reasons (set out in the previous section).

This section outlines a range of activities that could be taken forward (or at least started) to mean that more can be made of existing freedoms. It also provides a set of proposals for central government for how freedoms could be improved or extended.

Extending and improving existing freedoms

In the previous report we identified a range of specific areas where existing freedoms could be improved or slightly changed to ensure that they function more effectively. These still stand, albeit with slight amendments:

1. **Removing restrictions** on revenue/capital splits in the Investment Fund Grant.
2. Further **relaxing requirements within the 'Single Pot'**, so that all money within it is completely flexible both over function and timing of expenditure.
3. **Extending the timeframe** for use of some grant allocations.
4. Committing to the **continuation of the Mayoral Capacity Fund** over longer time horizons.
5. Seeking a **presumption in favour of combined authority financial freedoms**, to ensure that all existing freedoms are opened up to all combined authorities and that any new freedoms are automatically granted to all combined authorities, unless there are specific reasons not to.

These could all be adopted as part of the Government's Devolution Framework for areas that negotiate devolution deals with a directly elected mayor (Level 3 of devolution as set out in the 'Levelling Up' White Paper).

Preparing the ground for those taking on powers

Within the context of the freedoms already available, we hope that this document is helpful for officers and leaders in areas looking to become combined authorities or who have recently become combined authorities/mayoral combined authorities. There are also existing guides available on the LGA website and previous commissioned work that provides detail of lessons learned in other combined authorities.

These will likely serve as a useful starting point. However, it would also be helpful for a set of more detailed guides to be created that outline the exact basis, scope and nature of each of the financial freedoms available to combined authorities alongside practical advice and guidance for how they might be implemented in practice. A process for developing this, alongside an understanding of both case studies of the use of existing powers and areas where policy development has already been undertaken, is outlined in the next section.

Sharing learning with national government

Even with a common understanding and set of goals between combined authorities, the major barrier to making these ambitions a reality then remains the lack of shared vision for the future between local government and Whitehall departments including HM Treasury, HM Revenue and Customs, DfT and DLUHC.

A shared vision for future collaboration would benefit national government (who are interested in understanding the impacts of the freedoms they have given and how their impact can be increased) and combined authorities themselves (who can be frustrated by a perceived lack of understanding and/or interest from central government departments).

To address this, we believe that HM Treasury and DLUHC should convene a working group of senior officials from all interested parties to create a realistic roadmap for the future of fiscal devolution, tasked with evolving the Devolution Framework set out in the White Paper. This should have a number of objectives:

- Verify and build on the work of this project and other similar projects to:
  - create a central repository of case studies of how each of the freedoms has been used in practice
  - develop a shared understanding of the barriers to the use of existing freedoms
  - bring together a fully comprehensive understanding of the extent to which existing freedoms could be stretched (based on existing legislation and an understanding of how central government would respond to specific options).

- Create a timeline for rolling out existing freedoms. This should include:
  - providing consistency over the range of freedoms available to combined authorities and how these are structured (noting that more freedoms are always likely to be given to mayoral combined authorities) – ie all similar combined authorities have the same freedoms available to them
  - a presumption in favour of combined authority financial freedoms. This would mean that, once a new freedom/flexibility was given this should automatically be available to all combined authorities, unless central government makes a compelling case for why this should not happen. This would mean that all combined authorities are lifted to the level of freedom of the most flexible deal.
- Create a road map for future fiscal devolution, this should focus on ensuring that combined authorities have access to revenue streams that they can 'own' in the future. This should include:
  - creating a shared understanding of areas where significant fiscal devolution could occur in future. For example, it would be helpful for HM Treasury to outline areas that are in scope and out of scope of consideration in the next two to ten years – so that a constructive conversation can be taken forward. Obviously, nothing should be taken off the table in the long term. But examples of realistic reforms that could be achieved within ten years that were raised during this project include: a tourist tax, hypothecation of parts of Stamp Duty Land Tax associated with additionality from local development investment, and further reform of council tax/business rates
  - providing clarity about the evidence that central government would need to see before bolstering freedoms and reducing requirements around spending. This is essential if future work can be taken forward effectively
  - co-developing joint workstreams to take this forward. This should include representatives of each of the relevant central government departments and combined authorities
  - reporting back on how and when a set of realistic options could be delivered over the next ten years; how this could be implemented and the work that would need to be undertaken to achieve this.

The working group should be jointly sponsored by ministers in HM Treasury and DLUHC. It should set a clear remit agreed by these departments and combined authorities and required to initially report back within six months and then to submit final recommendations after 12 months. Work could be funded through a small extension to the Mayoral Capacity Fund.

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