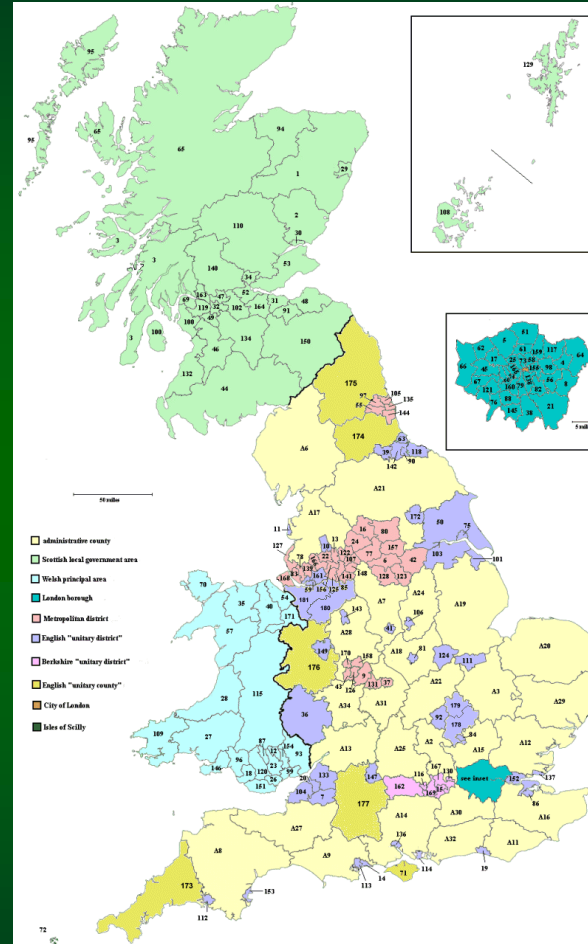




Institute for Fiscal Studies

Local government: a devolution revolution?

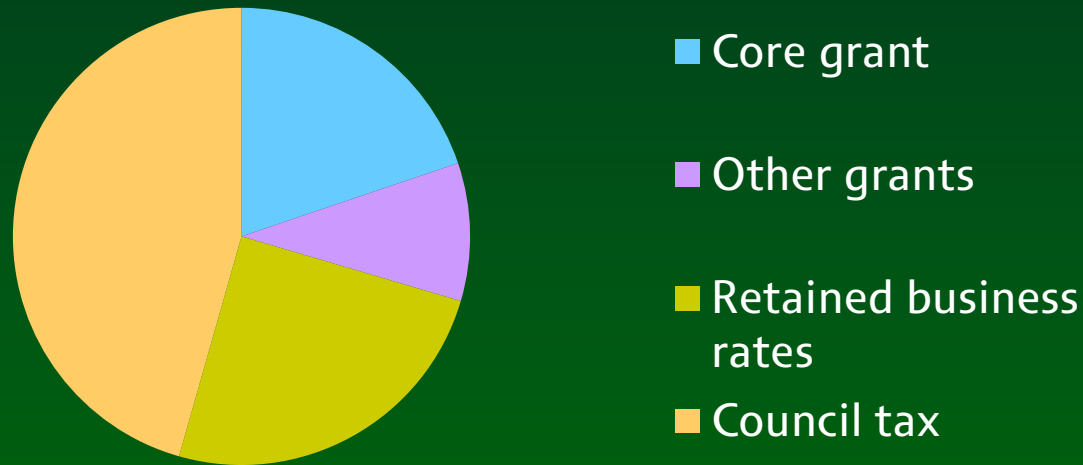
David Phillips



English local government spending

- Local government DEL to be cut by 56% by 2019-20

Local Government Funding in 2015-16



Note: Excludes Education, Police, Fire and National Parks

- HMT estimates councils' spending to be reduced by 7%, on average
 - But could vary substantially across England

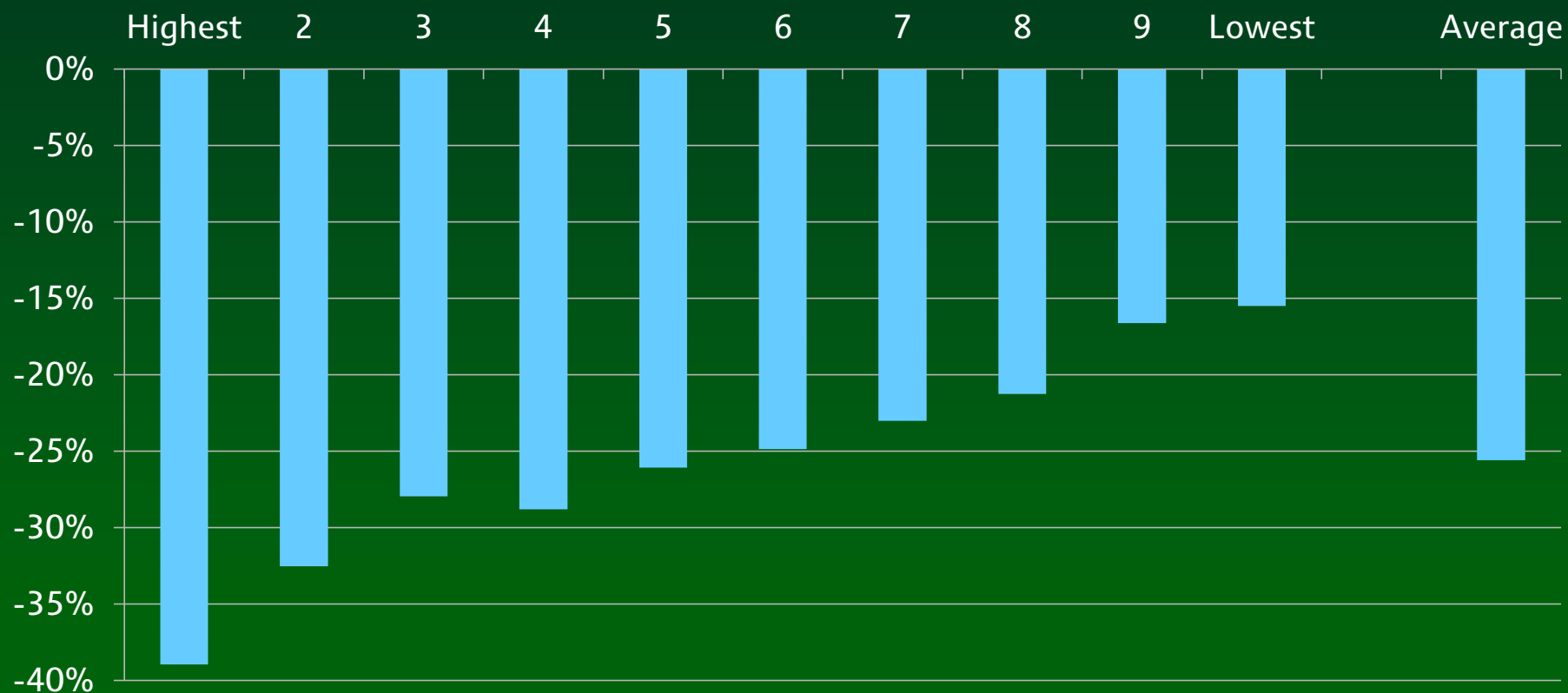
Average change in spending power of councils between 2009–10 and 2015–16

Decile group of initial grant reliance



Average change in spending power of councils between 2009–10 and 2015–16

Decile group of initial grant reliance



Looking ahead to 2019–20

- Continued equal % cuts to grants would hit grant-dependent harder
 - This group seen biggest cuts already
- But could deliver a different pattern of overall spending cuts
 - e.g. equal % cuts in spending power across councils
 - Closer to the approach in Wales
- Find out more in December's LG Financial Settlement
 - Spending Review suggests cuts formula will change
 - Mood music suggests in ways beneficial to more grant-dependent and those with social care responsibilities

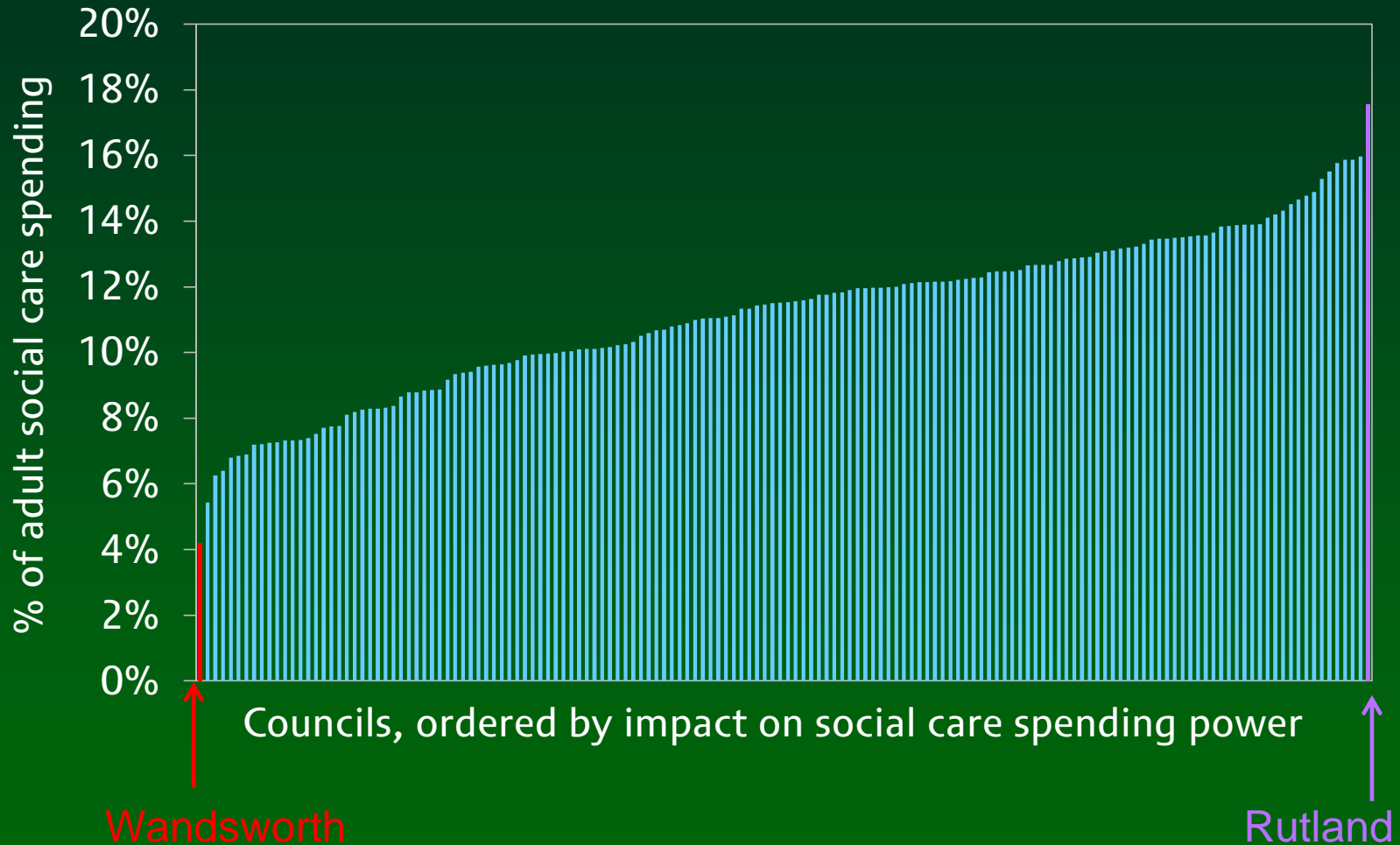
Extra council tax for adult social care (I)

- In recent years councils have needed a referendum to approve increasing council tax by more than 2% a year
- From next year able to increase council tax by 2% more *each year* without a local referendum if extra spent on adult social care
 - So referendum if overall council tax up >4% a year?
 - Raise £1.7bn a year by 2019-20 if used in full
- 4x2% equivalent to 11% of adult social care spending in 2015-16
 - But varies substantially across England

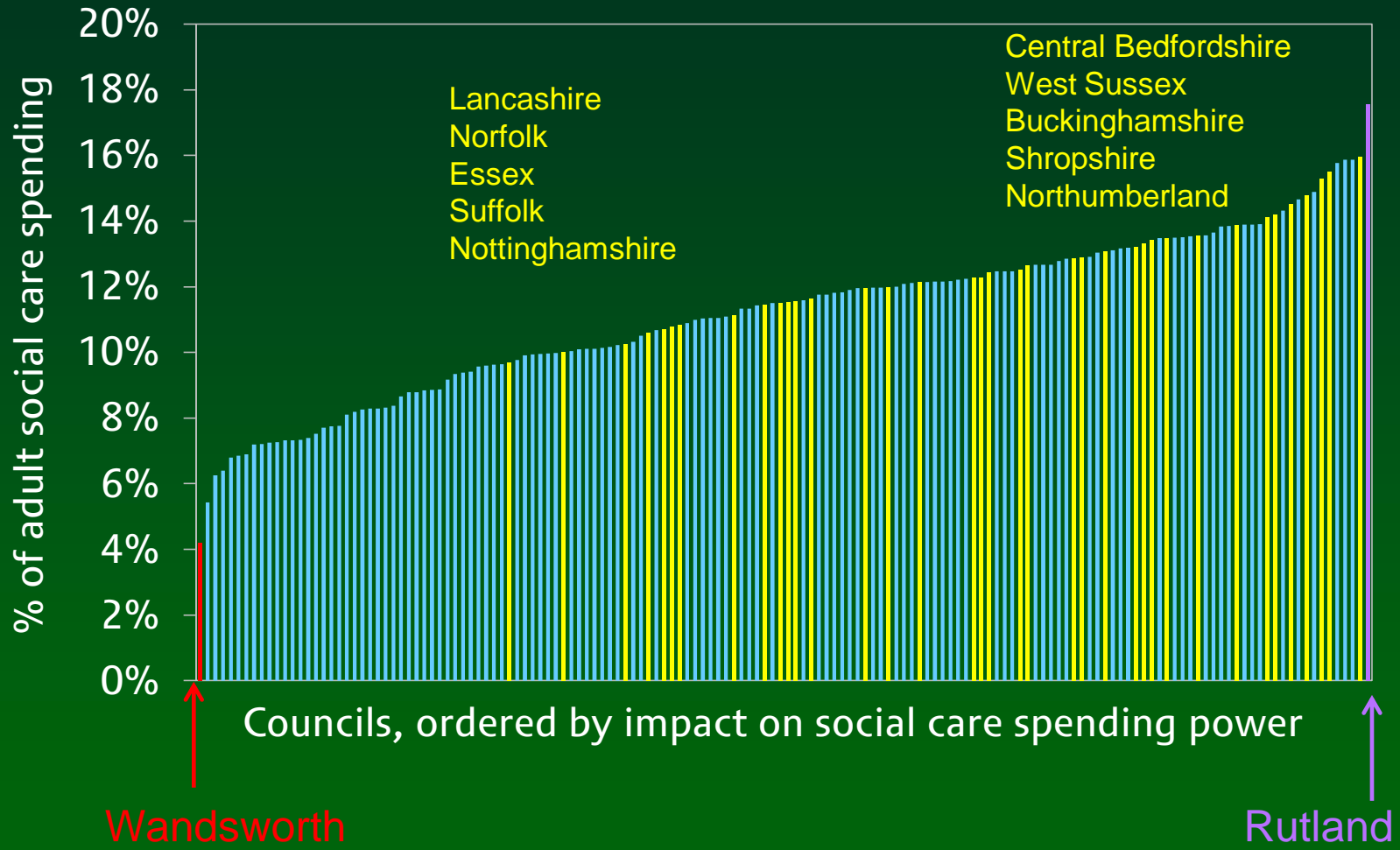
How much would extra council tax raise by council?



How much would extra council tax raise by council?



How much would extra council tax raise by council?



Extra council tax for adult social care (II)

- How measure 'extra' spending on social care?
- Cash-terms increase in budget equivalent to extra council tax?
 - Councils may have to cut other areas more than otherwise would have
- Estimate council spending on social care without policy?
 - But difficult to verify and ensure this is genuinely new money

New Homes Bonus consultation

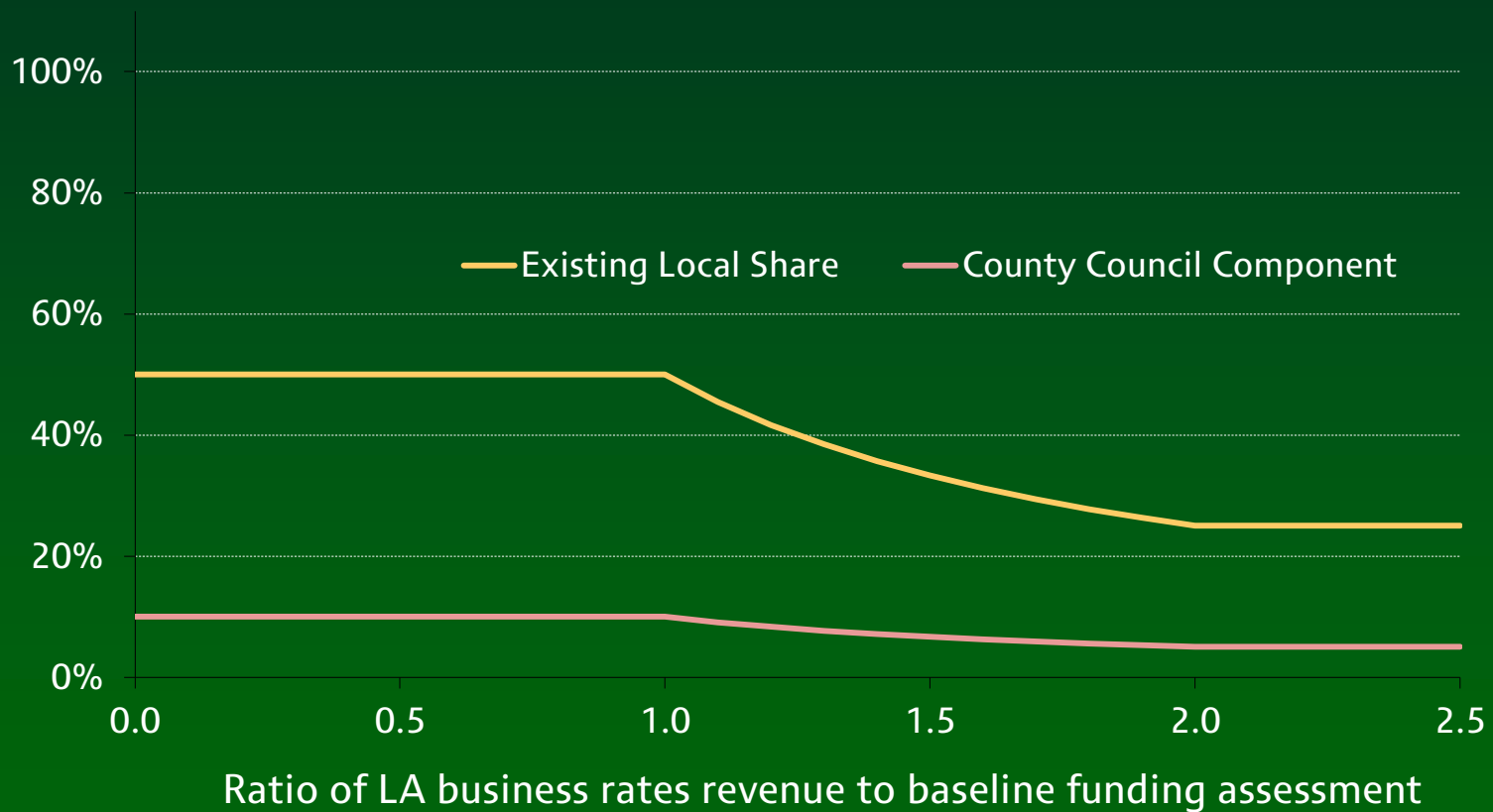
- Government to consult on changes to New Homes Bonus
 - Reduce the size of the bonus
 - But meant to provide ‘sharper incentives’ than now: is this just payable over 4 rather than 6 years?
 - Introduce a floor to limit losses: could weaken incentives without more significant changes
- New Homes Bonus in effect part-funded a % top slice to RSG
 - Councils more reliant on grant more likely to be net contributors
 - Could changing this reduce losses and maintain incentives?

Business rates revenues retention (I)

- Business rates retention scheme means local areas keep up to 50% of business rates *growth* that results from new developments
 - County Councils get 1/5th (up to 10%), 4/5^{ths} (up to 40%) go to Districts
- Rates from existing premises redistributed via Tariffs and Top Ups
 - County Councils tend to be ‘Top Up’ authorities
 - Levies and safety nets to limit gains/losses

Existing business rates retention scheme

Share of revenue from new developments retained locally

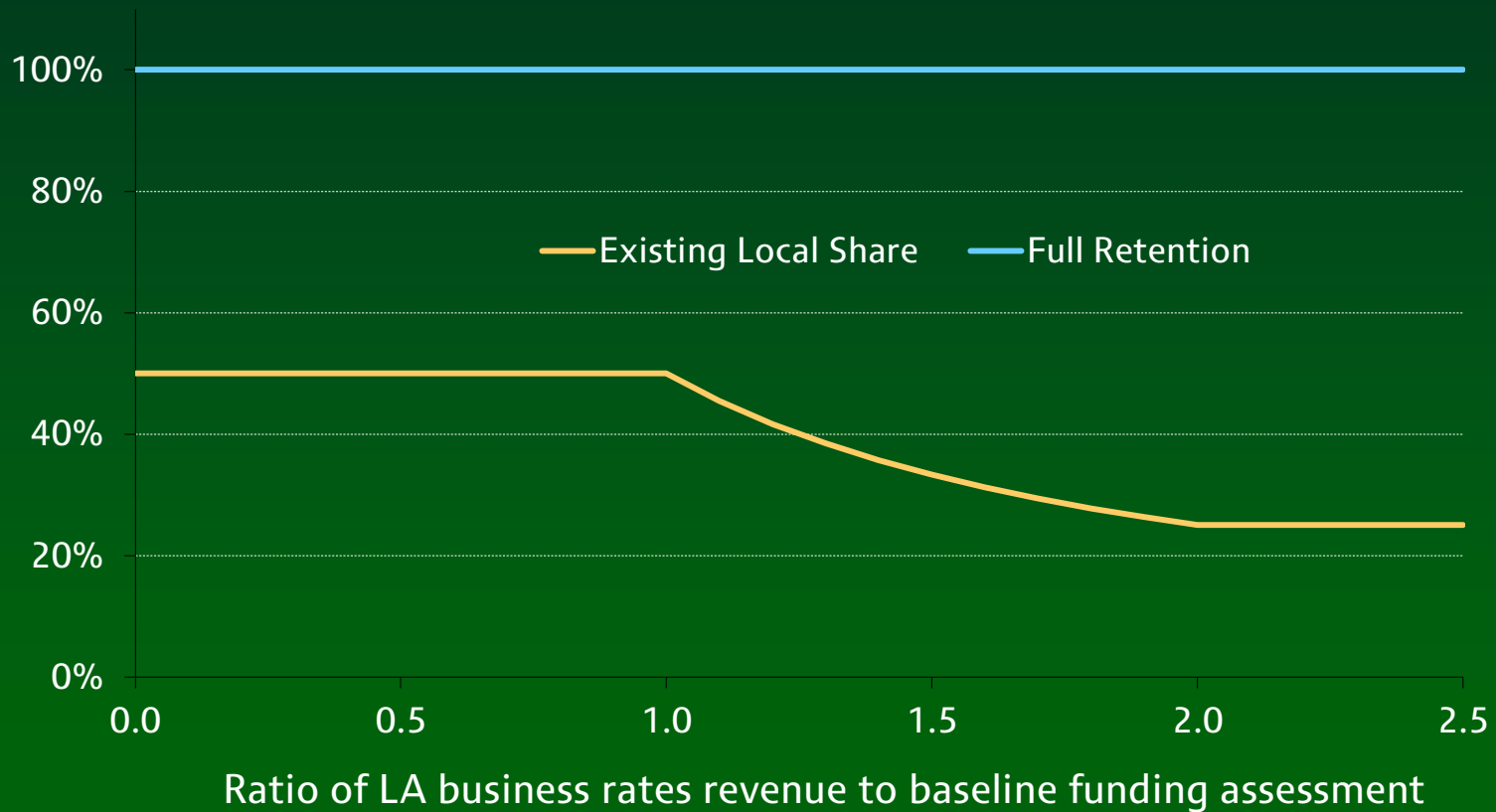


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 - County Councils tend to be ‘Top Up’ authorities
 - Levies and safety nets to limit gains/losses
- Local areas to keep 100% of business rates *growth* as a result of new developments by 2020
 - *Not* 100% of all rates raised in their area
 - Continue to redistribute rates (via recalculated tariffs and top-ups) so no ‘overnight’ winners or losers
 - But abolish levies and safety nets

Full business rates retention

Share of revenue from new developments retained locally

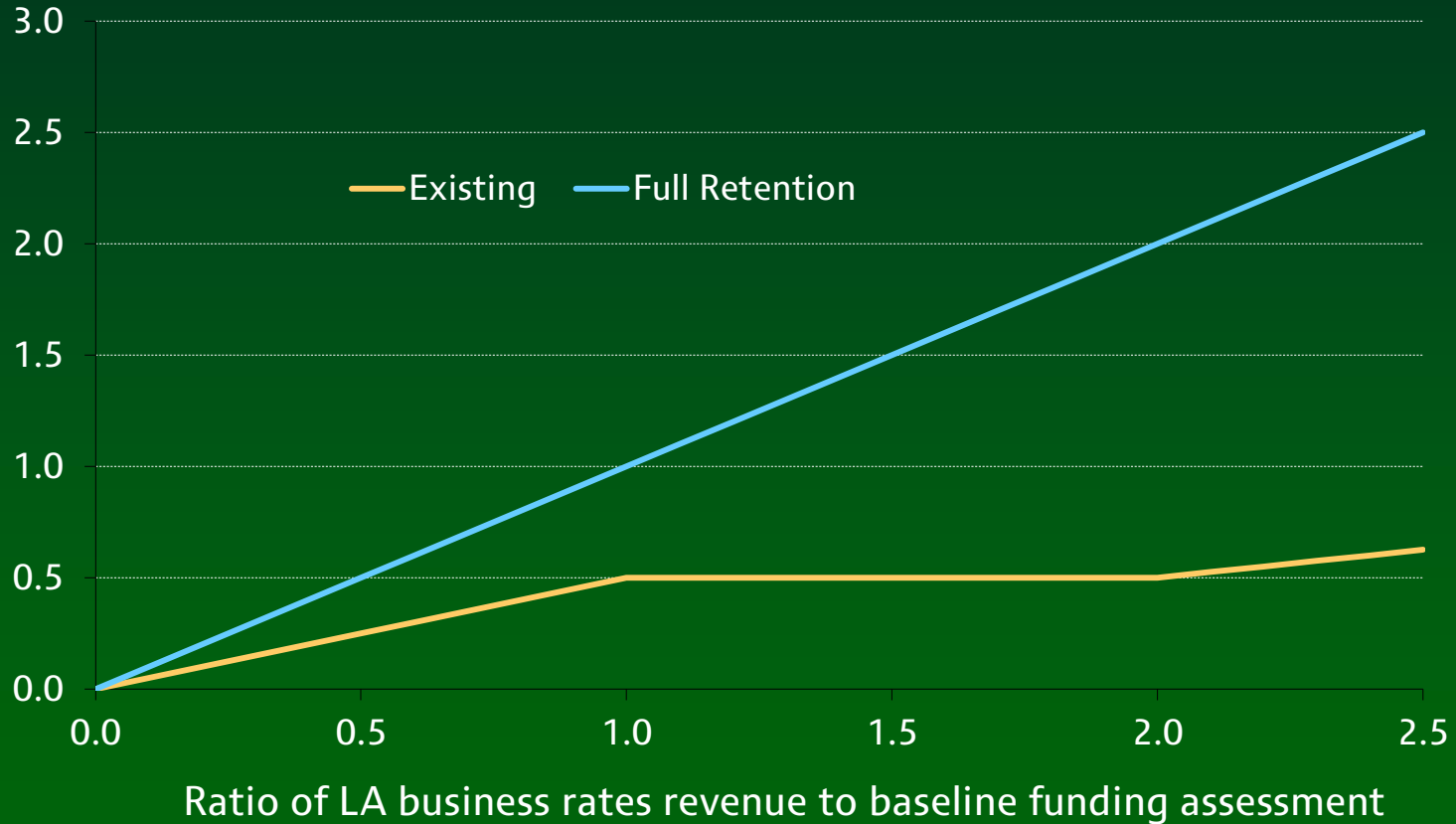


Business rates revenues retention (II)

- Winning councils those seeing growth in business rates that is large (in cash terms) relative to their budgets
 - A given % growth translates into more cash if start with higher level of business rates revenues

Impact on incentives and relative funding

Cash-terms benefit from given % growth in business rates



Business rates revenues retention (II)

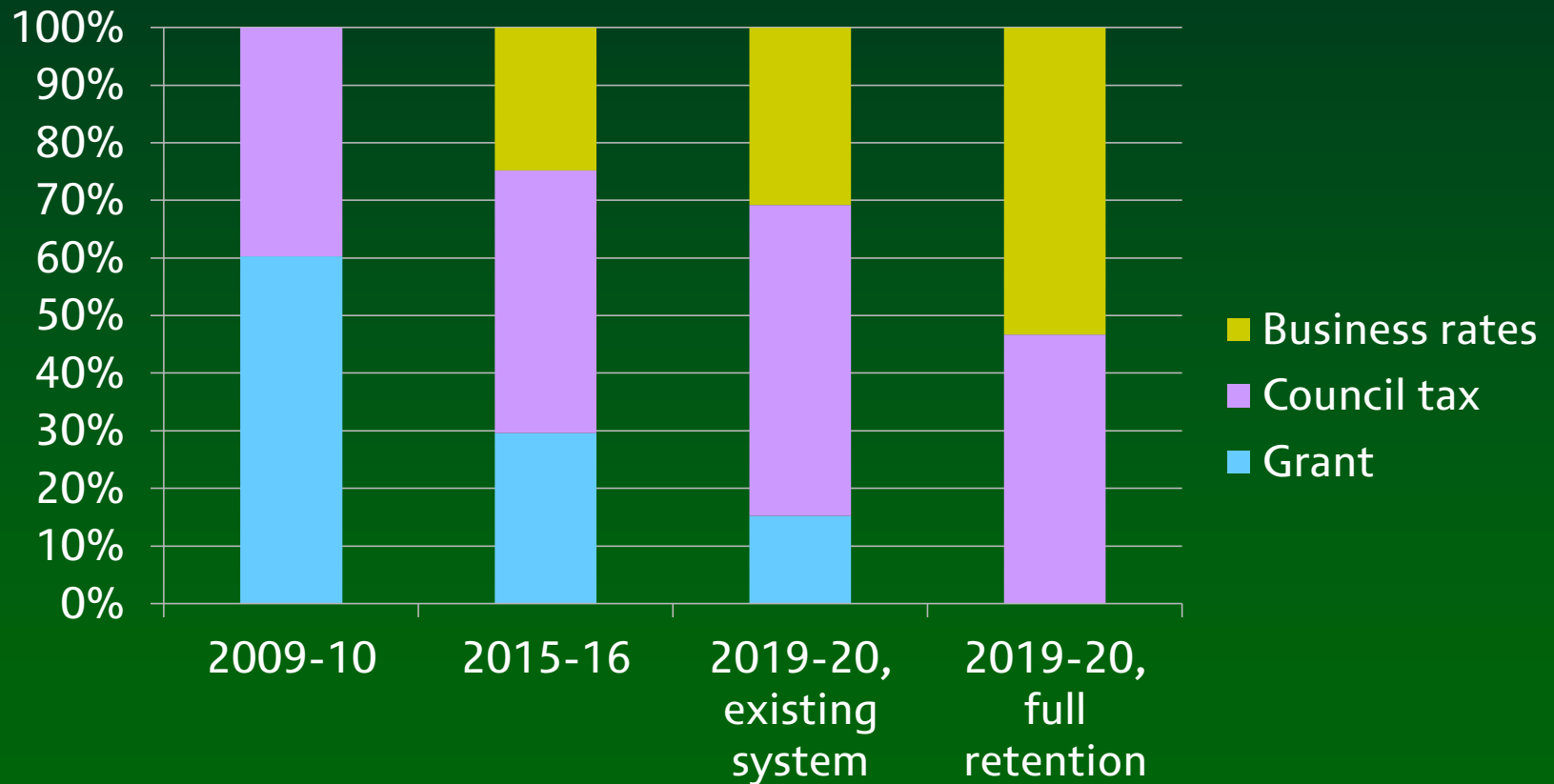
- Winning councils those seeing growth in business rates that is large (in cash terms) relative to their budgets
 - A given % growth translates into more cash if start with higher level of business rates revenues
- Could lead to significant divergence in budgets over time
 - Potentially big winners and losers
- Government to consult on ‘capping’ funding divergence

Business rates revenues retention (III)

- Grants will be abolished alongside full business rate devolution
 - Extra business rates revenue bigger than grants it will replace
- Councils will have new responsibilities for this extra money
 - Details to be consulted on
 - e.g. housing benefit admin costs, public health services
- Will councils future revenues (council tax and business rates) keep pace with demand for existing and new services?

A big shift in councils' funding

- 100% business rates retention culmination of big shift back from central to local funding of councils



Specific issues for counties

- What fraction of business rates will be allocated to counties?
 - Top-ups and tariffs mean this has no overnight impact
 - But can have significant long-run impact as affected more/less by future business rates revenue changes
 - Want high share if expect fast business rate growth & vice versa
- To what level will additional responsibilities be devolved, and how will this align with business rates retention?
 - Some areas being discussed (e.g. police funding) closer fit to counties

New powers over business rates?

- Local authorities will gain the power to cut headline rates
 - Can already use local reliefs to the same effect (Localism Act 2011)
 - Will more explicit label act as a signal encouraging use?
- Ability to levy a 2p supplement if elected mayor and agreement of business members of local enterprise partnerships
 - Already have similar powers for supplements
 - New powers less constrained in some ways, more in others
- Not so revolutionary
- Where do counties fit in?
 - Districts or counties as rate setters? How are financial effects of rate changes divvied up?
 - Elected mayors in county council areas?

Summary

- How cuts to councils' spending in England vary across country will depend on formula used to calculate grant cut
 - Impact of extra council tax and mooted reforms to New Homes Bonus also differ across councils
- Full retention of business rates is culmination of big shift from central to local funding in recent years
 - Taken together, this is genuinely revolutionary
 - Winners and losers
- 'New powers' to vary rates not so revolutionary as they may seem
- Some particular issues for counties
 - What fraction of business rates are county versus district?
 - Where will new devolved responsibilities and powers lie?

