

A devolution revolution? Or problems delegated?

28th March 2017

LGiU, Network on the Future of Local Democracy

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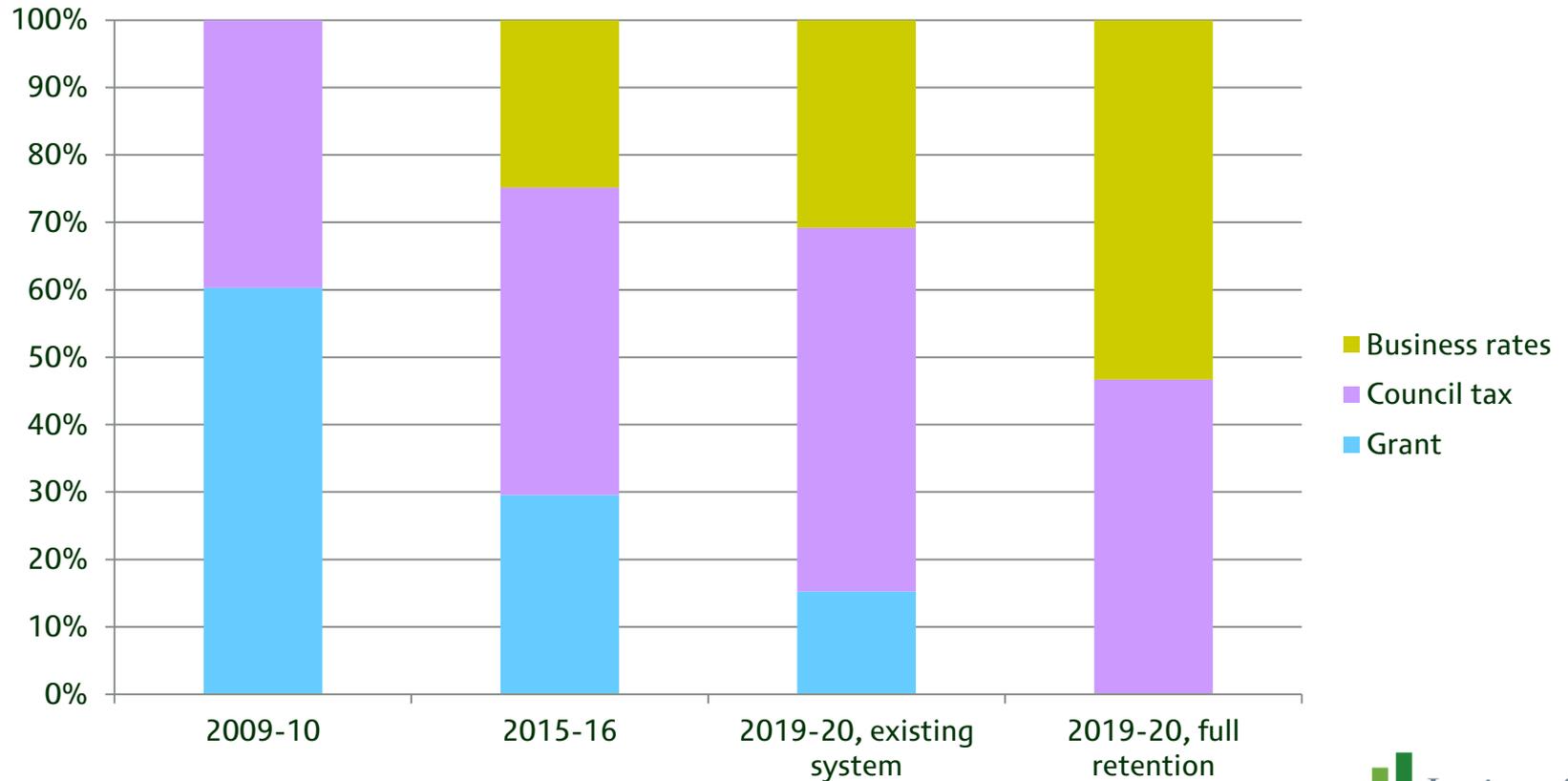
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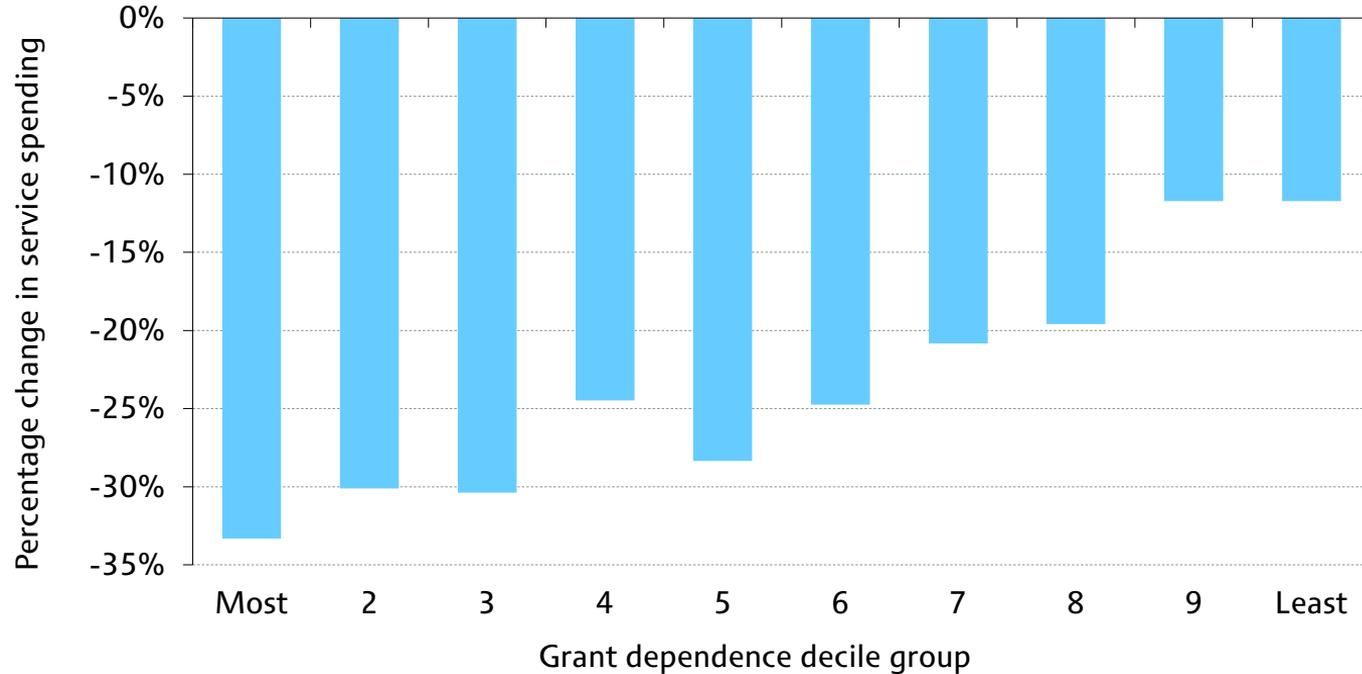

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Big changes to councils' (non-school) funding



Cuts in spending bigger for grant-reliant councils



Move from redistribution towards incentives

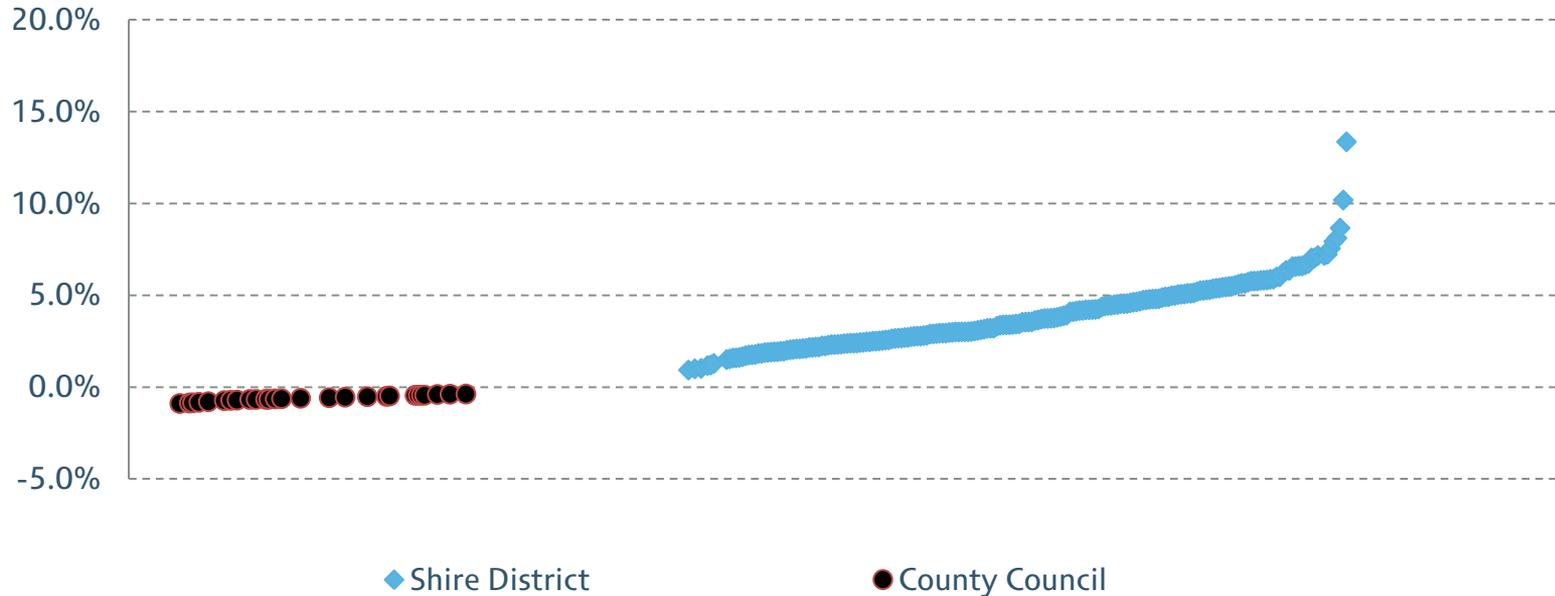
- Previously redistribution/insurance at heart of finance system
- End of annual updating of funding ‘needs assessment’
- Councils retain up to 50% of growth/decline in business rates revenues
 - Moving to 100% retention in April 2019
- New Homes Bonus to incentivise house-building
- Devolution of council tax benefit to incentivise poverty reduction
- Alongside these incentives, additional risk & potential divergence

Rates retention: incentives versus redistribution

- How long should councils get to retain 100% business rates?
 - Longer means stronger growth incentive but more risk of divergence
- When system is reset, is it fully or partially reset?
 - Partial reset means stronger incentives but more risk of divergence
- These risks will be greater if poor revenue performance is associated with rising spending needs (e.g. more old, poor, sick people)
- Decision will have to be taken, based on incentive/redistribution trade-off

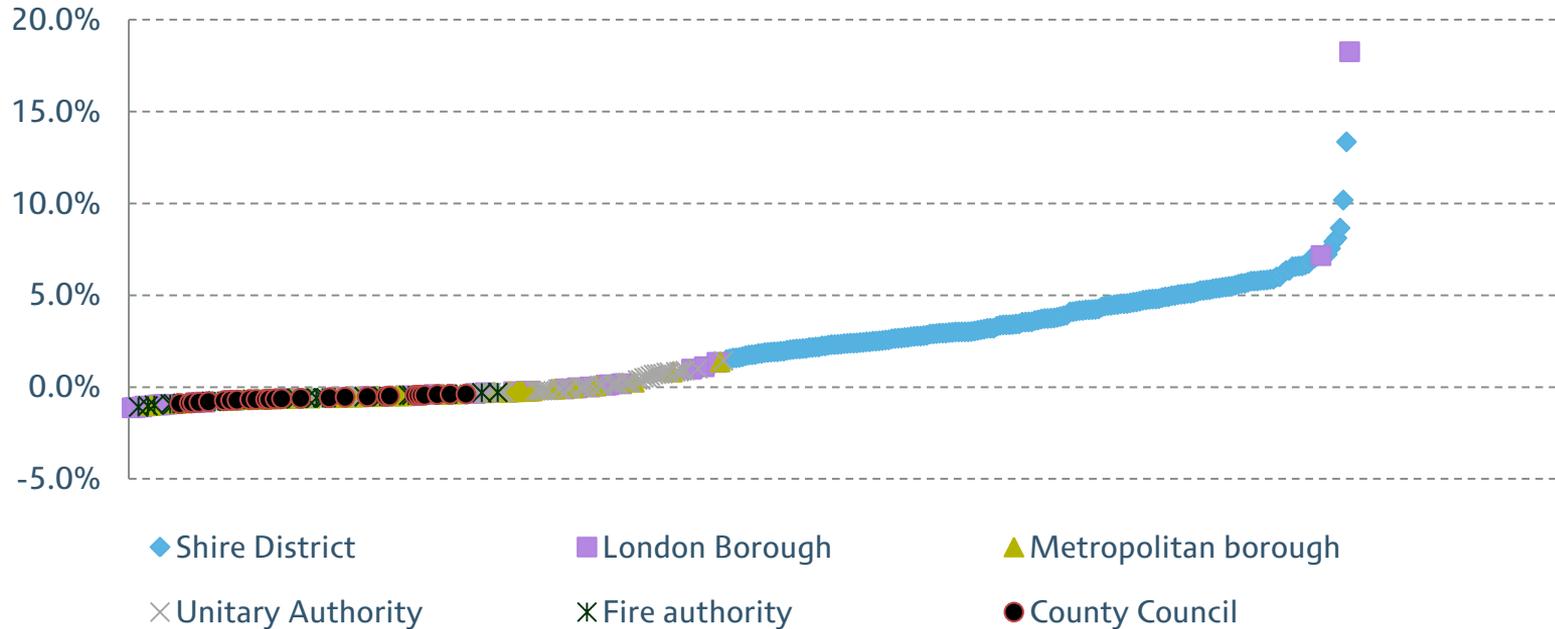
Technical design matters

Relative gain/loss after 10 years of 100% retention given existing system design and tax-base growth of 0.5% a year



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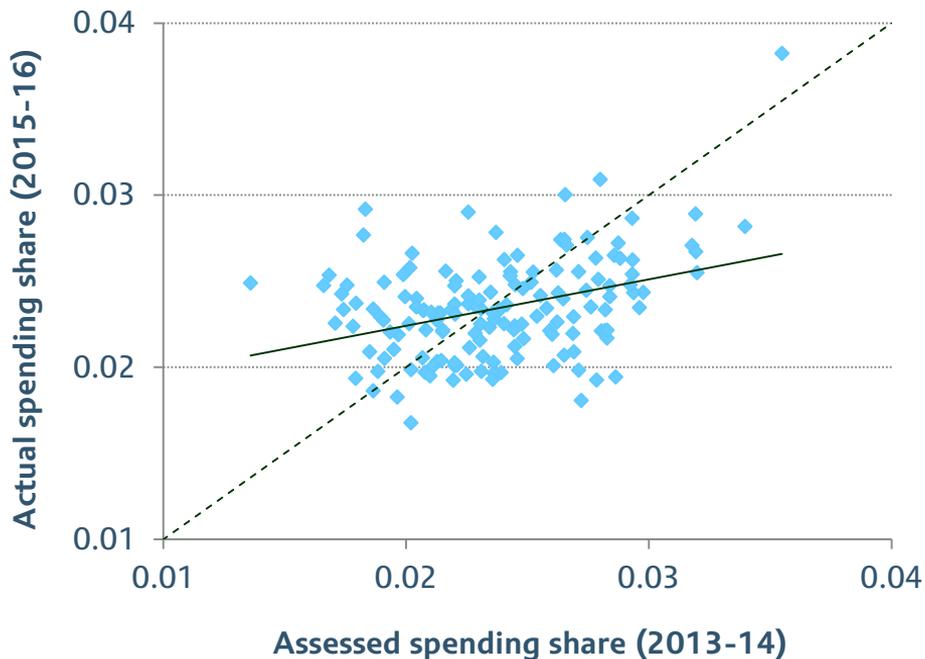
Many 'technical' decisions with rates retention

- How should revenues be split between counties and districts?
 - How should powers to lower rates and offer reliefs work in areas with multiple tiers of local government?
- What incentives should be offered to encourage pooling and coordination between LAs?
 - Will secretary of state use new powers to force revenue pooling?
- What services should be devolved alongside new revenues?
 - And how should need for new and existing services be measured?

Needs assessment is inherently difficult

- Choice of needs indicators
 - Trade-off between simple and comprehensive
- Many other factors affect spending patterns which assessments based on
 - Local choices/priorities
- Data may not be timely and may quickly date
 - Backwards looking?

Illustrative example: actual versus assessed spending shares (pop-adjusted) for a service



What do business rates incentivise?

- Business rates retention (largely) incentive for new property development and major refurbishments
 - Change in property values at revaluation ‘stripped out’ of system
- Provides little incentive for
 - Increased intensity of use of existing properties
 - Small or home businesses (small business rates relief)
 - Better links and access to jobs in neighbouring areas

Broader tax devolution?

- Assignment of additional revenue streams?
 - Provide incentive to grow additional tax bases like income tax
- Powers to vary additional taxes?
 - Income tax
 - Sales tax
 - New taxes?
- Need to consider pros/cons of tax competition
- Higher level than individual council?

Final thoughts and questions

- Changes in funding levels and regime are ‘revolutionary’
- How willing are people and councils willing to tolerate (increased) divergence in service quality?
 - Are there some services where funding should be centralised?
- How much can councils really influence local economies?
 - What services/powers need to be devolved to maximise impacts
 - Are we just devolving revenue risk?
- What role will central government play in future?
 - Supporting versus meddling

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