A devolution revolution? Or problems delegated?

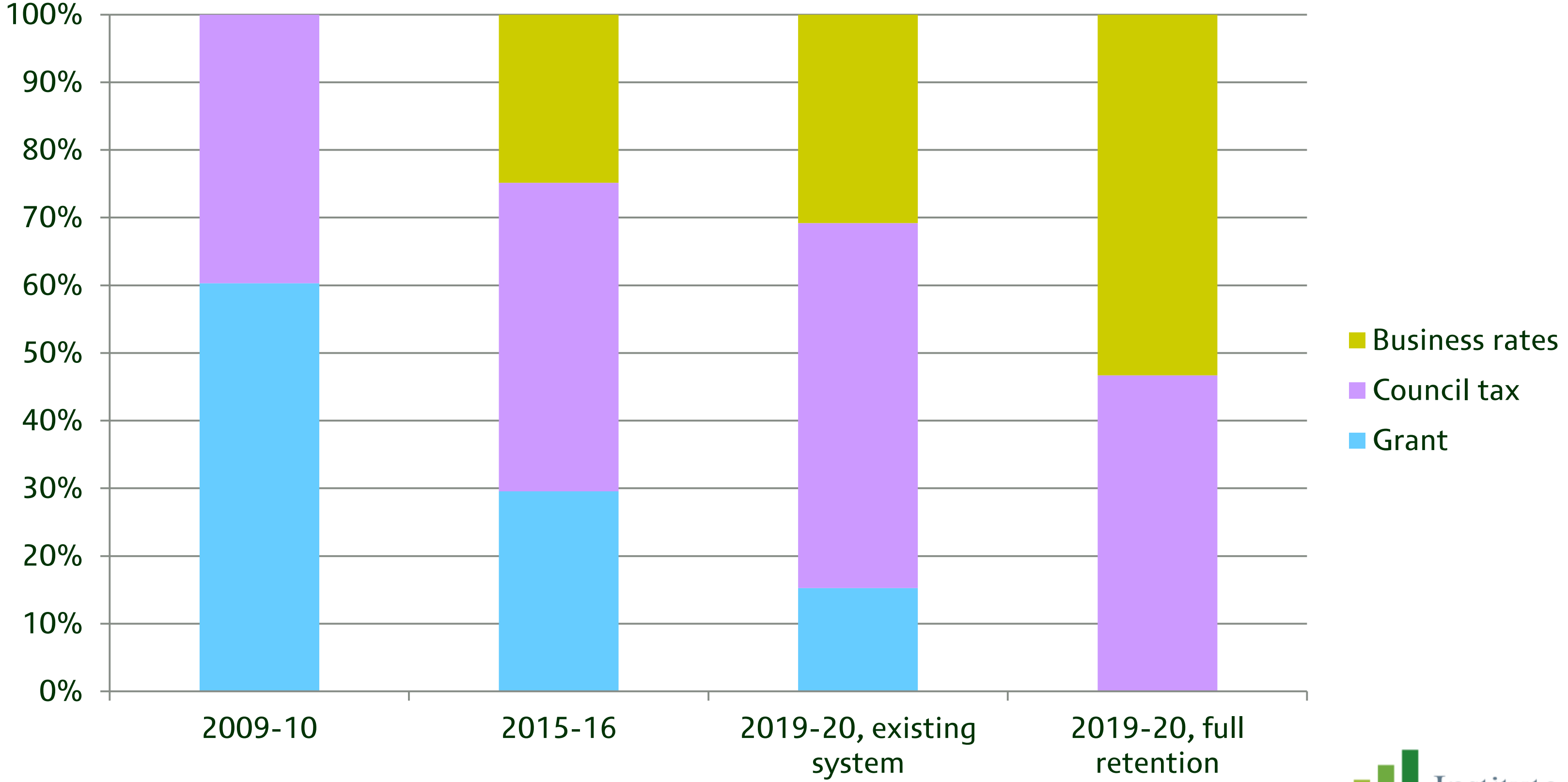
27th April 2017

David Phillips, Associate Director, IFS

British Academy event, Bristol

The Local Government Finance and Devolution Consortium is generously supported by the following organisations, as well as a large group of local government bodies:

Big changes to councils' (non-school) funding



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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, Bristol region piloting now
- 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

Rates retention in Bristol region

- Between 2013-14 and 2016-17, retained business rates revenues grew 4.8% a year in cash-terms in the region
  - Most in South Glos. (5.1%), least in Bath & NE Somerset (4.3%)
  - Better than the national average (3.9%)
  - Bath & NE Somerset pooled with rest of Somerset
- Revaluation will reduce revenues (although councils will be compensated)
  - Down most in South Glos. (10%), least in Bath & NE Somerset (4%).
- Provisions for business rates appeals higher in South Glos. than Bristol

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?

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How does Bristol look for other taxes?

- Tax revenues per person higher than national average (substantially higher than average outside London and S. East)
  - Spread across range of taxes inc. PIT, CIT, NICs, VAT, and Stamp Duty
  - Less from cigarette duties!
- In common with most cities outside London, revenues grown less quickly than national average
  - Up about 8% in real terms versus 10% across UK
  - Amount raised per job in Bristol down 4%

Sources: Centre for Cities and New Economy estimates

Final thoughts and questions

- Recent changes to funding are big but is scope to go further
- 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?
  - How to balance

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