A devolution revolution? Or problems delegated?

28th March 2017

LGiU, Network on the Future of Local Democracy

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

- **2009-10**: 60% Grant, 0% Business rates, 40% Council tax
- **2015-16**: 50% Grant, 10% Business rates, 40% Council tax
- **2019-20, existing system**: 60% Grant, 0% Business rates, 40% Council tax
- **2019-20, full retention**: 100% Grant, 0% Business rates, 0% Council tax
Cuts in spending bigger for grant-reliant councils

Percentage change in service spending

Grant dependence decile group

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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
- 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
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
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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