A devolution revolution? Or problems delegated?

27th April 2017

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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

- **2009-10**:
  - Business rates: 40%
  - Council tax: 20%
  - Grant: 40%

- **2015-16**:
  - Business rates: 30%
  - Council tax: 30%
  - Grant: 40%

- **2019-20, existing system**: (Diagram shows percentages)

- **2019-20, full retention**: (Diagram shows percentages)
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?
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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