Devolution: Beyond the rhetoric

CLES Think Piece

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Introduction

'Devolution: Beyond the rhetoric' challenges the Government narrative on devolution. It explores the extent of the devolved power deficit in comparison to the vast amounts of new risk and responsibility devolved to local government.

Real power, real budgets and real revenue raising capacity remain at the whim of Whitehall. Purported opportunities around business rate retention and the lack of political will to address long-standing issues with council tax provide clear examples of this.

This think piece argues that without true devolution of power, the potential contribution of local government towards a prosperous future for people and place is in danger of drowning in a mire of unnecessary fiscal constraints and excessive levels of localised risk.

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Flawed fiscal 'power'

Despite the noise, the old system of local government finance remains pretty much untouched by devolution to date.

Local Government Finance is complex. Even within Whitehall, there are only a handful of civil servants that truly understand it and even fewer who harbour any real appetite or have enough knowledge to bring about much change. With this in mind, ongoing minor tweaks to an exceptionally complicated, multi-layered funding system will do little to reform the impenetrable process that enables Ministers to arrive at often unfair budget settlements for local government.

The convoluted nature of the planned system adds to the lack of transparency around the whole budget setting process. This in turn begins to expose the scale of the necessary operation if fiscal powers are to begin to be truly devolved.

In England and Wales, business rates have been the focus of the fiscal devolution debate. Under former Chancellor George Osborne, changes to the business rates system at both national and local level happened quickly. Between 2013 and 2020, business rates will have shifted from one centralised pot to 100% retention in local areas. Whilst on the surface this might appear to be a monumental devolution of power, it is far more limited (albeit not without risk) than the rhetoric might suggest.

The vast differences in the business base in different places means there will always need to be a redistributive mechanism (most likely the existing system of tariff's and top ups). This ensures places with higher levels of need and lower numbers of rate payers can continue to fund local services. Essentially, as long as Government wants to maintain a "fair" funding environment, 100% rates retention will never truly be that. Indeed it should not be, unless we get greater transparency as regards an effective redistribution system.

Furthermore, local areas are bound by national relief schemes, which in effect means they have no power or control over the charge. By failing to address Mandatory Relief (arguably the key to unlocking real behavioural change), the opportunity to offer 'local' relief in any tailored way to incentivise growth in particular sectors or geographies is lost.

So, if Government isn't going to allow places to keep all the money they generate or help local partners design an innovative local charging regime, how is this any different to the current system? Firstly, local authorities, in the event of any local or national economic downturn will take more of a hit than they would in the past (historically, changes in collection rates were smoothed through Revenue Support Grant which is due to be phased out by 2020).

Secondly, local authority funding (for services) will become far more volatile as year to year income will be intrinsically linked to those who pay rates locally and those who choose to appeal. So, in sum business rates devolution in its current guise is less about devolved power and more about the devolution of risk and the associated, potentially negative, effect on services.

An unjust system

If government is truly interested in devolving power it should devolve council tax to allow local places to address the inequities derived from a national system.

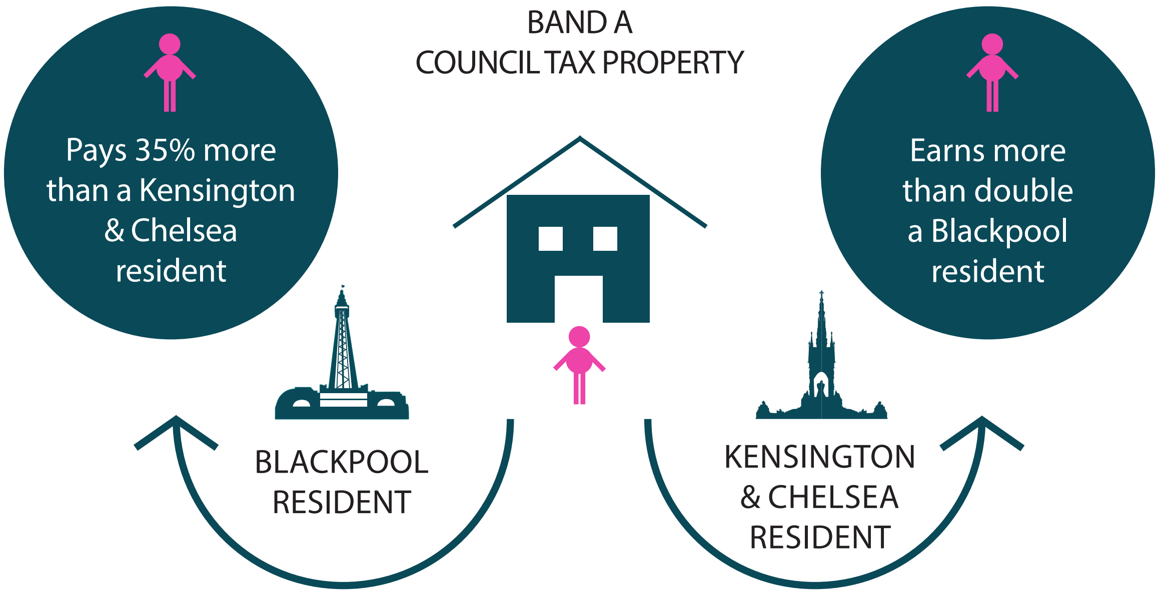
The current system fails to recognise the nuanced economic and housing market characteristics of the different economic geographies across the UK. Residential properties are allocated a council tax band based on an estimated market value in 1991 - a time when regional disparities existed but to a lesser extent than today.

In 2016, there is no such thing as the UK housing market, rather a polarised collection of divergent, individual markets (hyper-dynamic price inflation in London versus low demand and price stagnation in parts of Liverpool & East Lancashire, for example) bearing little or no resemblance to the situation at the time of the last revaluation some 25 years ago.

The effect of this is an increasingly unfair council tax banding where a resident in Blackpool in a Band A property [1] currently pays 35% more in council tax than a resident in a Band A property in Kensington and Chelsea [2] , where average gross earnings are more than double that of those living beside the Pleasure Beach [3].

The current system is clearly out of date, one-dimensional and increasingly unfair. Whether it is ending council tax exemptions for wealthy international students or cutting council tax for the most deprived, a locally designed regime for council tax would allow places to innovate in order to maximise revenues based on their unique economy, potentially adding income measures to the charging regime to ensure support for those that need it most.

This government has just completed a full-scale revaluation of commercial property. However, like so many others before it, they continue to show no desire to repeat the



exercise in relation to council tax. Even though a revaluation makes sound economic sense at the moment, political parties are too nervous to risk the dramatic increases in bills for wealthier households (where sustained annual house price growth has been most intensively experienced and celebrated).

For very similar reasons, government to date has failed to properly explore and introduce a Land Value Tax. This is despite it offering a fundamentally simpler and arguably fairer approach to taxation in modern city economies.

A local and national opportunity

A locally designed council tax regime has the potential to fairly redistribute the local tax burden to achieve a variety of economic, regeneration and social policy outcomes.

The devolutionary process to date has lacked both the political maturity and bravery to contemplate any level of meaningful council tax reform. Consistent centralised control over council tax has made it impossible for places to fairly distribute or increase the tax burden. Add to this year on year cuts to budgets and a 3.99% cap on council tax increases without a referendum (2% exclusively for adult social care) and it becomes clear that councils are running out of options.

Liverpool City Council recently announced they were considering a referendum for a 10% increase in council tax to make up the £90m shortfall in their budget to 2020. Joe Anderson, Mayor of Liverpool City Council recently said, "The fact of the matter is that if we took a 10% cut to adult social care and a 10% cut to children's care then we would still have cut all the other services by 50%. That shows the scale of the problem that we face".

From April 2017, City Mayors – democratically accountable with a mandate for change - will be perfectly placed to take responsibility for giving local areas the opportunity to design a system which is fit for purpose. At its core this should include mechanisms for fair distribution of the tax burden (through revaluation) and appropriate revenue raising capacity to allow places to meet their own agreed housing market, economic, regeneration and social policy goals.

Provided a Mayor is ready to embrace the significant transfer of political risk, even the most ardent decentralising opponents on the right, might consider devolving council tax to a local area as a risk they are now prepared to take.

Power of transparency

Furthermore, devolution presents an opportunity to add a level of transparency to the relationship between a reformed charge and the quality of local services.

> "Under the national system, councils have very limited tools at their disposal to influence behaviour."

The growing inequalities perpetuated by the current council tax system are made worse by the opaque way in which payments relate to frontline services. There is an opportunity in a reformed system to clearly demonstrate the links between taxes and services by offering incentives to residents and businesses that are willing to help improve services and support the social and economic aims of the charging authority at the same time.

Under the national system, councils have very limited tools at their disposal to influence behaviour. The ability to offer a reduction in council tax for cycling to work to reflect the reduced wear and tear on the roads for example, or a reduction in business rates for companies that commit to paying a real living wage or taking on resident work experience placements, would help councils to lever the assets already available in communities locally.

A mandate for local innovation

But it goes beyond council tax and fiscal devolution. Local places need the power to respond to a variety of nuanced local issues in a fiscally flexible and responsive format.

Metropolitan areas typically suffer the greatest divergence between rich and poor, with highly successful and attractive regional centres surrounded by more deprived districts on the outskirts.

Polarisation is born from the uneven distribution of wealth most prominently visible in the dominance of overseas investors in cities such as London and Manchester who scoff at the recent 3% Stamp Duty Land Tax levy in the face of a 17% devaluation in the pound post-referendum.

These buyers are currently absorbing much needed housing in England at significantly reduced prices. Add to this the emergence of Airbnb, removing significant numbers of residential properties from the mainstream market and adding to an already catastrophic housing shortage in city centre housing markets in particular.

Similarly, in some parts of the country, congestion is curtailing growth and local air quality is exceeding legal limits. In a bespoke devolution 'ask' to help places maximise their existing assets a Mayor could request the ability to impose a system where motorists compensate communities for the negative effects of using their cars or where council tax is used to recoup resource for affordable housing.

However, instead of helping local areas with the tools to address any of these pressing issues, in the case of Airbnb, rather than acting to allow local authorities to claw back lost revenues through reforms to council tax the Government responded (in London) by introducing the Deregulation Act.

This legislation allows Londoners to avoid the restrictions under the Greater London Council Act 1973, which prevented lettings under 90 days without planning permission. This was

effectively a green light to potential Airbnb lets in London despite concerns from local resident's and council leaders over the impact of the Airbnb influx in local neighbourhoods particularly on the availability of affordable homes.

Unfulfilled potential of the devolution movement

Contrary to the rhetoric, real power, real budgets and real revenue raising capacity remain at the whim of Whitehall.

Local government has masses of devolved responsibility, but there remains a significant lack of devolved power. In the post-truth world, political rhetoric does not align with political action. Devolution to date does not equate to decentralisation and the true capacity of City Mayor's has been severely under-utilised by current deals despite this government's insistence on having them in place.

Government claims 100% business rates retention post-2020 is a huge opportunity for local government but fails to acknowledge the lack of real game-changing power for places in this new piece of blanket legislation. Worse still, council tax has thus far been absent in the devolution debates at Whitehall despite it being an opportune moment for the current government to devolve responsibility for such a politically tricky issue.

So far, devolution has only served to deflect risk and responsibility for the local effect of national cuts and add a further layer of complexity to an already intractable local government finance system. The lack of real power in devolution deals to date does not fully equip places or the incoming City Mayors to effectively deal with the challenges of the modern economy whilst driving tax revenue.

Without true devolution of power, the potential contribution of local government towards a prosperous future for people and place is in danger of drowning in a mire of unnecessary fiscal constraints and excessive levels of localised risk.

Endnotes

1 (Band A - 2016/17 - £1,057.18) https://www.blackpool.gov.uk/Residents/Council-tax/Council-tax-bands.aspx

2 (Band A - 2016/17 - £695.20) https://www.rbkc.gov.uk/council-tax/band-values-and-charges

3 (ONS annual survey of hours and earnings - resident analysis [2015] - Gross Weekly Pay - All Full Time Workers - Blackpool £392.40 – Kensington and Chelsea £762.80) https://www.nomisweb.co.uk/reports/lmp/la/1946157252/subreports/asher_compared/report.aspx?

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