EVERSHEDS

Devolution Revolution
Turning Around Local Government

On the 5th October the Chancellor George Osborne, set out the Government's plans to devolve powers from Whitehall to local areas in a bid to stimulate economic growth. The initiative was heralded as the ***"biggest transfer of power to local government in living memory"***.

The proposals envisage that local areas, predominantly led by local authorities, will retain 100% of local taxes to spend on local government services. The suggestion is that this will help stimulate job creation, and offer encouragement to local SME's and businesses.

So, what does George Osborne's 'revolution' actually entail?

Since the 1990's central government has exercised close control of local business rates by means of setting the rates and transferring the contributions back to local areas via central grants, with local authorities effectively acting as the middle-men and collecting the funds. 2013 saw a change in approach, allowing local authorities to retain 50% of the business rates collected, with the remaining 50% again going back to central government.

If the devolution revolution is fully realised then complete control of business rates will be handed to local authorities, including setting the rates, collection and subsequent investment. The devolution of fiscal powers will also encompass infrastructure projects for those authorities with an elected Mayor and as long as they support local businesses. The general concept is that local authorities should be empowered to support their own development requirements at a local level rather than being reliant on central government.

With 38 bids having been submitted from authorities from across the country in the latest devolution bid process, it would appear that the revolution is very much underway. It is arguable that such devolution is long overdue as there is a general recognition that the UK economy needs to be rebalanced away from a reliance on London as the dominant economic hub. Genuine fiscal autonomy for areas outside of the capital is also generally acknowledged as an effective mechanism to achieve this.

However, the proposals are not without their critics. Concerns have been expressed that local authorities may inclined to compete with each other when it comes to business rate cuts in order to attract commerce to their particular areas. With no suitable safeguards in place, the gap between those areas which are relatively successful in economic terms and other areas which have historically struggled to compete could widen. The private sector has also voiced concerns about it being regarded as a 'cash cow' by local authorities looking to plug funding gaps by recourse to additional (and potentially unsustainable) business rates.

In practice devolution will continue in a phased manner. Those authorities able to demonstrate that they are capable of successfully running their own micro-economies are likely to push for additional powers. However, the danger is that other areas that cannot make the case for self-sufficiency will be left behind. With the prospect of a continuing combination of cuts and devolution, the next few years may well witness winners and losers from the process which could result in a radical reshaping of local government in England.

Robert Pritchard
Principal Associate, Eversheds

Andrew Hirst
Senior Associate, Eversheds

eversheds.com

DT05312_10/15