

# Can cities handle the money?

## Not every council will embrace devolution

Sarah Whitney



**D**espite everything you will have read about devolution, we still have one of the most centralised systems of government amongst developed nations. Even with the devolution of Business Rates in 2020, less than 10 per cent of the total tax base raised within our cities is kept by our cities. In Canada, the equivalent figure is 50 per cent, in Germany, it is 35 per cent, and in Tokyo, it's a whopping 80 per cent.

This is so important as, increasingly cities, rather than national governments are driving economic growth. We expect our cities to compete in a globalising and rapidly developing world, and yet we persist in handicapping them by imposing a heavily centralised model that ignores their differing needs. We all pay a vast array of taxes, charges and levies, and yet the only two taxes over which English councils have any degree of control are the Council Tax and the Business Rate. Most other cities in the OECD have a much greater degree of fiscal control and also receive a direct allocation of national or federal taxes including income tax and VAT. By contrast, no English tax is fully devolved to local government.

Our cities differ in their competitive advantages, industrial clusters, geography, demographics, transport issues, welfare needs, educational provision, cultural offerings etc. In this context, our historic one-size-fits-all approach to tax raising and spending is no longer appropriate. Good sense dictates that local authority leaders should have a greater understanding of what drives their local economy than politicians and civil servants based many miles away in SW1. Even the Prime Minister recognised in a recent speech “[the] proven reality that money spent closer to people is often money spent wiser.”

This is the argument behind devolution. The two most pressing (and linked) problems facing our cities are first, the need to reshape the public sector to bring more people out of dependency and into the labour market, and secondly, the pursuit of stronger economic growth. Cities are seeking the devolution of powers and budgets to enable them to address these twin issues with locally tailored interventions, rather

than relying on nationally determined priorities and policies.

Both this Government and the Coalition have embraced this argument, as the recent devolution deals to many of our cities and counties testify. However, these don't go far enough. Far greater autonomy is needed, particularly financial autonomy. By way of example, cities need greater powers to set, retain and spend a wider range of taxes, charges and levies than is currently the case. They also need ring-fencing to be removed from many devolved budgets, and multi-year settlements to enable longer term investment. It is precisely these changes that will put our cities on a par with international competitors.

But we need to recognise that devolution is not a panacea. It poses significant additional risks and burdens, as councils wrestling with the complexities of business rate reform are finding out. We do however have one of the strongest systems of local government finance of anywhere in the world, and it is precisely this strength that Government should be seeking to leverage.

Devolution isn't something that should be imposed on councils, rather it needs to evolve on a case-by-case basis as part of a negotiated partnership between central and local government. The extent of

devolution should then be determined by a wide range of factors at the local level, including stable political leadership, effective long-term strategic planning, appropriate accountability, and a deep understanding of the local economy, amongst other factors.

We also need to recognise that not every council will have the ambition, the capacity, and the mandate to embrace devolution. Councils should be allowed to progress at their own pace towards devolution, even if this means a multi-speed system with different places having different level of devolution according to their willingness and ability to take on additional powers and responsibilities.

Devolution is a two-way process. It requires Westminster to be bold, to give our cities real freedom of action and greater control over their resources. It requires our cities to step-up to the mark, take responsibility for their actions and deploy their resources wisely. Neither side is going to find it easy—there will inevitably be mistakes along the way on both sides. But there really is no alternative if we are going to unshackle our cities, free-up their latent economic potential, and enable them to compete on the increasingly global playing field.

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In Tokyo, 80% of the total tax base raised is kept within the city