From Vision to Reality: Three key challenges for Burnham and Rayner

Andy Burnham has had a very busy first fortnight as Prime Minister. Parliament is in recess but that has not stopped Burnham from announcing a new policy proposal a day. In this article I want to briefly comment on three policy areas, where the announcements appear both radical and progressive, but for which implementation raises complex issues.

Firstly, devolution of power and funding to Mayors. This was perhaps Burnham's big argument in his argument for the Labour leadership. Transferring powers without resources to implement of course does not work. But Burnham may find that the perspective from Westminster is rather different from that from Manchester. He is not however proposing that Mayors have tax raising powers (other than a new tourist tax) as for example the Scottish government now has the power to vary income tax, or for Mayors to raise a supplementary local income tax. Instead he is proposing that Mayor's can keep some of the income tax raised nationally from local households. This would replace current government subsidies and grants to local government – there is no new money. Subsidies tend to be based on formulas, which are generally based on an assessment of differential needs while grants tend to be based on specific purposes – for schools or new transport or housing investment. The Burnham vision is that rather than central government making these decisions on spending priorities, Mayors could decide how to use the tax they would keep. There are a number of problems here – firstly how it would be decided (and by whom) what proportion of tax revenue a specific Mayor could keep. Clearly given London household incomes are higher than most of the country, income tax paid per household is higher, so surely a mechanism is needed to redistribute tax revenue across the country – a standard rate without a spatial redistribution system would not do this. Would there be any mechanism for applying a tax retention system based on where income was earned rather than were the taxpayer lived, to avoid better off suburban areas being privileged by such a system? Would the tax retention system apply to local authorities under the new unitary system (where the Mayors are in effect a second tier of governance) or just to Mayoral bodies – given it is the unitary authorities who have the main responsibility for delivery of statutory services. Burnham seems to have forgotten that local government is not just about regional or sub-regional Mayors. Moreover the more devolution there is, the more a Labour central government hands over to Mayoral or local authorities controlled by other political parties, for example REFORM. How then is a basic national standard of service provision maintained? Local democracy for some is a 'postcode lottery' for others.

Second is the related issue of wealth or property taxes. There are a range of options. The first is a traditional land value tax – a fixed rate of tax on the value of land, but discounting the value of property on the land. This goes back to the theories of the American Henry George from the 1880's. The problem here is that the value of land is dependent on a) what

is developed on the land - for example residential, industrial or commercial buildings and b) what could be developed on land – the latter being largely dependent on the town planning system, which is primarily managed by local planning authorities. To calculate the value of land, you need to take the market value of the property and then subtract the actual construction cost of the property (normally assessed as the insurance value of replacement) , which then produces a theoretical land value. Where a residential property has a replacement cost of £300,000 but a market value of £1.5 million, the land value tax would be on the basis of a hypothetical land value of £1.2m. My view is that this is a purely theoretical calculation which would be difficult to justify as a basis for a tax regime and open to legal challenge on a case by case basis.

An alternative proposition is a proportionate property tax - an annual tax based on a proportion of current market value, which appears to be favoured by the Burnham team. The proposal from the Fair Shares campaign, to which Government seems attracted, would be an annual tax of 0.48% of current market value. If there is no minimum threshold, this would mean an annual tax of £2,400 on a property with a value of £500,000, or £9,600 on a property with a value of £2m. The level set would need to reflect whether such a tax was to supplement the existing council tax and/or stamp duty regimes or whether to replace either or both regimes (both of which admittedly are unsatisfactory). Clearly an additional tax would be politically impossible, while a replacement for either or both current regimes would have significant distributional effects. Would new purchasers who had just paid stamp duty have their stamp duty reimbursed? Moreover what about home owners who had bought properties say 20 or 30 years ago, who were theoretically asset rich but were income poor – many now being pensioners. Would they be able to defer payment to death or sale of the property or be forced to move out of their homes ? Deferring payment would mean a delay in government receiving revenue (compared with the current regimes) while not allowing deferral would mean forcing hundreds of thousands of elderly households, admittedly mainly in London and the south East, to move home or even become homeless, and may not be that popular politically. There is also the question as to what level of government keeps the property tax receipts – currently council tax is paid to the local authority (with levy by the London mayor) while stamp duty is paid to central government. A new proposal from the Centre for London, is that central government set a standard rate but that both local government bodies and Mayors can keep a proportion of the revenue or set their own additional rate.

There are of course simpler options for raising additional tax on wealth or higher incomes – for example a higher rate of tax on wealth above a fixed threshold; a higher rate of tax on households in the highest income bracket; taxing income from savings at the same rate as (or even a higher rate than) tax on earned income; increasing capital gains tax on property sales (including sale of primary residences) and increasing inheritance tax or tax on life time gifts. None of these options are necessarily simple, and no doubt will have loopholes for experts in tax avoidance, but some at least would be fairer and less problematic to implement in practice.

he third issue I wanted to touch on is rent control. Much promoted by Burnham in his days as Manchester Mayor. We now have the Renters Rights Act which as well as banning 'no fault' evictions, limits landlords to only setting one rent increase a year and also allows tenants to challenge the contractual rent within the first six months of a new tenancy and the amount of any subsequent -rent increases, though the determination of the appropriate market rent would be for Property Chamber of the First-tier Tribunal (which replaced the Rent Assessment Committee) to assess. These provisions have only just come into effect, and there is an issue as to whether the Property Chamber will have sufficient capacity to manage the likely caseload in a timely fashion..

One option for rent control would be to limit annual increases to a measure of the rate of inflation (such as the Consumer Price Index), but provision might need to be made for landlord costs such as maintenance and/or repairs. (Even social landlords are able to raise rents at 1% above CPI and generally argue for greater flexibility to maintain their financial viability). Moreover there is no limit on what rent a landlord can set for a new tenant, other than the right of a tenant to challenge it. One option often advocated is to have a time limited freeze on rents, but that is likely to lead to landlords withdrawing properties from the rental market or converting properties into Houses in Multiple Occupation which generate a higher rent income. A recent review by an academic at the LSE of practice ii some other cities including New York, San Francisco, Berlin and Barcelona, has demonstrated that the tougher the form of control, the greater the withdrawal by landlords. Moreover investment in new provision of privately rented homes will be disincentivized if revenue income from rents is to be restricted. Not all landlordism is that profitable, and the freezing of annual increases in the Local Housing Allowance, which supports lower income households, has the effect of pushing rented homes upmarket.

The private rented sector has been increasing in recent years due to a combination of increased unaffordability of market homes and the dramatically reduced supply of social rented homes. It is a critical element of the overall housing market, especially in urban areas. We should of course seek to do away with private landlordism, but without a massive increase in the supply of social rented homes - returning the current proportion of 16% of the total English housing stock to somewhere the 30% proportion applying at the end of the 1970's, we cannot risk further reductions in the supply of privately rented homes, which would just increase homelessness. It is therefore not surprising that Angela Rayner, back as housing minister, has said that rent control is not practical in the current context. Unfortunately she is right. Labour needs a long term plan to invest in new social rent homes and to both regulate and socialize the private rented sector, which may include agreements between local authorities and specific providers on management and physical standards, security of tenure, rent levels and possibly nominated tenancies and direct payment of local housing allowance to landlord, but we need to be careful not to drive out the better private landlords with the bad and increase the current housing crisis for the most vulnerable households rather than resolve it.

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