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# INFLATION AND COUNCIL TAX

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In a recent letter to Isitfair and the Taxpayers Alliance dated 27<sup>th</sup> June 2007, the then Minister for Local Government and Community Cohesion, Phil Woolas, wrote that:

*“You point out that Council Tax, which is set by Councils, has gone up 91%. It is only fair to point out that Government grant to Councils has also increased by 78% on a like for like basis (or 39% above inflation). It is local authorities who decide what levels of council tax they think they need. However, the Government has provided above inflation grant increases and has a capping policy resulting in average Council Tax this year being below RPI. I have used these powers already and I will not hesitate to use them in the future to protect taxpayers.”*

Let us look at the actual words used. Mr. Woolas claims that Central Government grants increased above **inflation** for the current year, so that Council Tax rises were below **RPI**. The difference in terminology is important.

The government, (via the Office for National Statistics), publishes a number of different measures of inflation. It uses different measures for different purposes. The two commonest are the Retail Prices Index, (which gives an annual inflation rate of 4.8% for March 2007 - probably the most relevant date since it represents the end of the Council Tax financial year - or 4.4% for June 2007, which is the date of the Minister's letter), and the Harmonised Index of Consumer Prices, (which stood at 3.1% in March 2007 and 2.4% in June 2007).

So, let us examine the Minister's claim as quoted above and below and determine which inflation measures have been used:

In 2006-2007 English Council Tax yielded, (after discounts but before Council Tax Benefit), a total of £23,521 million. In 2007-08 it yielded £24,533 million. This is an increase of 4.30% - which is certainly below the increase in RPI - as the Minister claimed. However, total Central Government grants to English Local Authorities amounted to £24,814 million in 2006-07 and £25,633 million in 2007-08. This is equal to an increase of 3.30%. This is **less** than the increase in RPI, (and **less** than the increase in Council Tax), but **more** than the increase in HICP. What the Minister has done is to use two different measures of inflation in one and the same sentence - without alerting anyone to the fact. He has **not** compared like with like. Many people might consider this to be dishonest!

Moreover, what the Minister has done is to focus solely on Council Tax rises and inflation in a **single year**. A longer term perspective provides a much more damning indictment of his Central Government's performance.

If we exclude the Scilly Isles, (for which there is very little data), there are 320 English Bill Collecting Local Authorities outside London. In the period 1997/98 to 2007/08 Council Tax bills have risen in these Authorities by an average of 94.47%, (on a dwellings weighted basis). However, there is a wide spread around this average. The lowest percentage rises are in Liverpool and Manchester, (with rises of 24.18% and 37.48% respectively). At the other end of the spectrum, the highest percentage rises are to be found in Harborough and East Dorset, (with rises of 141.04% and 140.35% respectively). Despite this spread of values there are still only 38 out of the 320 Billing Authorities with percentage rises in Council Tax that are lower than the 78% increase in Central Government grants quoted by Phil Woolas.

However, this apparently wide spread of percentage increases in Council Tax is somewhat misleading. The system of Central Government grant distribution was changed during the period under discussion. As the Audit Commission said in its report into Council Tax for the year 2003-04:

*“But grant distribution – which moved grant from London and the South to the Midlands and the North – led to some councils putting up Council Tax more than others. We found a clear association between the size of grant increase a council received and their increase in Council Tax.”*

A summary of the extent of this redistribution is given in figure 1.

	Shires	Units	Mets	Region
North East	3.80579	-17.796	-36.344	-50.335
North West	-17.609	-25.182	-392.34	-435.13
Yorks & Humber	16.7677	-13.888	-138.38	-135.5
East Midlands	16.7579	-2.6537		14.1042
West Midlands	67.5478	5.02065	-134.75	-62.186
Eastern	215.342	5.74153		221.083
South East	239.131	60.0052		299.136
South West	146.713	2.11481		148.828
England	688.456	13.3619	-701.82	0.00

**Fig.1 Reallocation of Central Government grants - £ million**

If we were to “give back”, (or “take away”), the amounts of this redistribution to, (or from), each of the 320 Bill Collecting Authorities, we would see a very different pattern of percentage rises in Council Tax. The highest rises would be found in Hart, (at 98.58%), and North Warwickshire, (at 97.50%), and the lowest rises would be found in Wansbeck, (at 82.85%), and Swale, (at 84.12%). The difference in spread of Council Tax increases is striking.

It should be noted that, had the old grant distribution system been retained, but with the same grand total for the level of grant as was given for 2007/08, then **every single one** of the 320 Bill Collecting Local Authorities would have had Council Tax increases **above** the 78% increase in Government grant as quoted above. To claim that all of these “excess” rises are due to spendthrift Local Councils would be preposterous and beggar belief. The rise in Central Government grants has clearly been, to some extent, “inadequate”.

If Mr. Woolas wants us to give his Central Government credit for the lower than inflation increases in Council Tax, as well as for reducing rises through the threat of capping, then he can hardly expect us to believe that Local Governments set their Council Tax rates without any interference from Central Government as he claims. It would appear that what we are being asked to believe is that all the bad news on Council Tax is down to Local Authorities whereas all the good news is down to his Central Government! A mixture of both levels of government being involved in both types of news would seem to be much more likely.

Generally speaking, we would expect Local Authority spending at constant “output” to rise at a rate intermediate between the rate of rise of average earnings, (for the wages part of their costs) and the retail prices index, (for the purchases part of their costs). Figure 2 shows how Local Authority spending, retail prices, local taxation and average earnings have grown in the periods 1991/92 - 1996/97, (when we had a Conservative Government), and 1997/98 - 2003/04, (when we had a Labour Government - and when the really big rises in Council Tax took place), on an annualised percentage basis.

Fiscal Period	Average Earnings	LA Spending	Retail Prices	Local Taxation
1991/92 - 1996 / 97	3.6%	3.3%	2.7%	4.2%
1997 / 98 - 2003 / 04	4.2%	6.5%	2.5%	8.9%

**Fig.2 Annualised percentage changes in selected fiscal variables**

As can be seen, the average annualised percentage change in Local Authority spending during the Conservative period was exactly the same as the average of the earnings and prices indices. This would suggest that, during these years, Local Authority spending probably was fairly close to the constant “output” situation. (It is interesting to note that in the budgeted expenditure for the fiscal year 2005/06 pay related costs accounted for 51% of Local Authority spending with purchases accounting for 49% - in other words an average between retail prices and earnings indices is exactly what we would expect to find at constant “output”). However, in more recent years, Local Authority spending has grown faster than either retail prices or average earnings. This would suggest that Local Authority “output” ought to have “increased”.

The only plausible reason that I can suggest for this to occur uniformly across most Local Authorities, as well as simultaneously with a change in Central Government, is that Central Government has placed more of the responsibility for service provision on Local Authorities than was hitherto the case.

Of course, this would not matter if Central Government had matched the increase in Local Authority responsibilities with corresponding increases in the size of Central Government grants. Had this happened, Council Tax would have risen broadly in line with Local Authority spending. As figure 2 demonstrates, this almost happened during the years of Conservative government but, under Labour governments, the disparity has been somewhat more marked.

This is confirmed by figure 3, which shows, in percentage terms, how Central Government grant per head, Council Tax per head, and Local Authority expenditure per head has increased between the financial years 2001/02 and 2005/06.

	NE	NW	Y&H	EM	WM	EE	Lon	SE	SW
CT / Hd	25%	20%	26%	28%	25%	36%	34%	36%	35%
Grant / Hd	5%	5%	4%	8%	10%	7%	-3%	5%	6%
Spend / Hd	9%	8%	9%	13%	14%	16%	4%	15%	15%

**Fig. 3 Percentage changes in Council Tax, grants and spending : 2001/02 - 2005/06**

It is obvious that Council Tax per head has risen much faster than either Local Authority spending per head or Central Government grants per head.

It is difficult not to conclude that the above extract from the Minister's letter is little more than spin!