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Report On The Funding And Structure Of Local Government

Part III - Current Problems

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1. INTRODUCTION

In Part II of my report I discuss a number of philosophical issues concerning what the relationship between Local and Central Government “ought” to be as well as what makes for “good” and “bad” taxes. In this part of my report I examine how the current systems of Local Government and the funding thereof match up to these rather idealised criteria.

It seems to me to be unlikely that the “official” Lyons Inquiry would ever have been instigated if people were satisfied with the current arrangements for Local Government and Local Government finance. There are two clear indicators of this dissatisfaction

- Turnouts at local elections have been very low of recent years.
- Local taxation has become increasingly unpopular with the electorate.
 - We only got the Community Charge, (*a.k.a.* the poll tax), because the Rates became so unpopular and we only got the Council Tax because, in its turn, the poll tax also became unpopular.
 - Some people have become so incensed about the “iniquities”, (as they see them), of the Council Tax that they have been prepared to go to prison rather than pay what they believe to be an unjust tax. The people involved are not the usual suspects, (like those who rioted over the poll tax), but those who one would normally expect to have a highly developed sense of social responsibility - such as retired vicars, retired social workers and ex servicemen

Section 2 of this part of my report examines the relationship between Local and Central Government. Section 3 examines the Council Tax from the points of view of “fairness”, “affordability” and other aspects that might make it a “good” tax or a “bad” one.

Since the two issues of local taxation and Local Government relationships with Central Government are somewhat interrelated, I summarise and compare my findings on these two matters in Section 4.

2. LOCAL AND CENTRAL GOVERNMENT

I believe that the reason for the low turnouts at local elections is that the local electorate feels **disenfranchised** because there has been a complete breakdown of the connection between local **taxation** and local **spending**.

- I have carried out a regression analysis of all 320 Local Authorities outside London, (excluding the Scilly Isles - for which there is no data), comparing Council Tax per head with Local Authority spending per head. I find that:

There is no statistically significant correlation between the average Council Tax per head collected by any Local Authority and that Local Authority's spending per head.

— In fact what correlation there is is a **negative** one - i.e. the **more** that a given Local Authority spends the **less** does it charge its residents!

- There is no **meaningful** connection between **rises** in Council Tax and increases in spending by Local Authorities
- There is no obvious relationship between **levels** of Council Tax and Local Authority services provided or consumed.

Given the above, it would not be surprising if local electorates thought that their votes would make very little difference. They would still get much the same services and pay much the same amounts in tax whoever runs the local council. This is probably not how people wish things to be!

2.1 Local spending and Council Tax

As I remarked above, there is a negative correlation between the spending of any given Local Authority and the amount of Council Tax that it charges its residents.

- The actual correlation coefficient for the 320 non-London bill collecting Authorities is **minus** 0.3157. If we include London in the analysis, (but exclude The City - which is a special case), the correlation coefficient drops to **minus** 0.2207
- A more visual representation of this relationship is shown at county level in figure 1. This is a scatter diagram in which I rank Local Authorities according to their spend per head on one axis and their Council Tax per head on the other. For the purposes of this diagram I have “folded back” the Unitary Authorities into their old counties. For example Darlington has been included in County Durham and the former counties of Avon, Cleveland and Humberside have been re-created. I have done this purely in order to avoid having too many “spots” on the diagram

Scatter diagram of spend per head rankings and Council Tax per head rankings

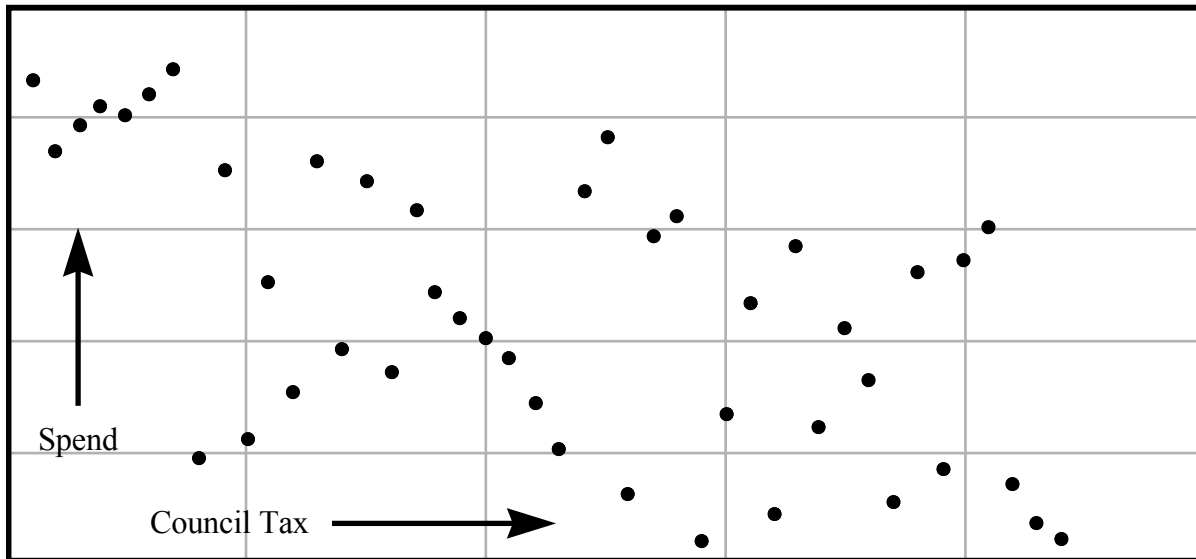


Fig. 1

Visually, it is immediately obvious that, whatever trend there may be, there is a great deal of scatter around that trend. (For what it is worth, the correlation coefficient for the data points on this diagram is **minus** 0.5893)

Given that there is a negative correlation, albeit a weak one, between Local Authority spending and Council Tax, one would expect that there would be a (weak) positive correlation between the amount that a Local Authority spends and the amount of Central Government grant that it receives.

In fact, there is a large and statistically very significant positive correlation between a Local Authority's spending per head and the amount of grant per head that it receives from Central Government

The uncharitable might suggest that the conjunction of a strong positive correlation between Local Authority spending and Central Government grant together with a weak negative correlation between spending and Council Tax levels merely goes to show that it is much easier to spend the money of those taxpayers who do not vote in those elections in which one is standing oneself than it is to spend money collected from one's own taxpayers. The more charitable might suggest that Local Authority spending was driven mainly by **need** and that the size of government grants were also driven by the same need. Which "explanation" is right?

If need were the correct explanation, then we would expect a strong **negative** correlation between Local Authority spend per head and the average incomes of its residents.

- In fact, if we include London, (but not The City), in our analysis, we find a small, but statistically insignificant, **positive** correlation.
 - If we exclude London from the analysis, then the correlation does indeed become negative, but differences in income only account for 6.39% of the variance in Local Authority expenditures.
- On the other hand, the correlation between grant and spend, including London, accounts for 87.5% of the variance in Local Authority spend, whereas excluding London, Central Government grants still account for 81.7% of the variance

Given the above, it is difficult not to conclude that the less charitable explanation is the correct one and that there is a real “democratic deficit” at the Local Government level

This view is consistent with the Audit Commission’s observation, (in its report into Council Tax rises for the year 2003/04) to the effect that: “*We found that increases tend to be higher in authorities that are not directly elected – 13 of the 20 highest increases were agreed by police authorities*”. Police Authorities are not directly elected! Indeed, those that span several Local Authorities which have no overarching “lead” Local Authority, e.g. Avon and Somerset Police, are hardly accountable to **any** local electorate!

In a sense, democracy is really a form of market where everyone has the same purchasing power: “*One man one vote*”. If we like what Local Government does with our money, we tend to re-elect them. If we don’t, then we tend to see if anyone else can do better. We treat supermarkets in exactly the same way. With the breakdown of any connection between what purports to be a “local” tax and what purports to be “local” spending, local electorates are, in effect, **disenfranchised**. It is said that Central Government funds, **on average** some 75% of “Local Authority” spending and dictates how around 80% of **total** Local Authority funds must be spent. If Central Government perceives that Council Tax is too high, then it can “cap” Local Authority spending. In such a situation, what is the point of local democracy? Aren’t “local” democracy and “local” taxation simply charades?

This is again beautifully illustrated by what the Audit Commission said in its same report on Council Tax for the year 2003/04: “*One of the difficulties in carrying out this analysis is that the government itself does not set out the basis on which it comes to its decisions on what to allow for in the local government finance settlement*”. If the Audit Commission can’t find out how Central Government determines Local Authority grants, what scope has the taxpayer for doing so - and hence of judging his Local Authority’s performance? This problem is exacerbated by the complexity of the system. Once again, the Audit Commission noted that “*The system is too complex for citizens – and many involved in the decision making processes – to understand, and there is no direct relationship between decisions to spend and increases in local taxation. The consequences are a lack of accountability*”.

The last part of this quotation illustrates a truth that really puzzles me. It would seem that people are much more concerned about **rises** or percentage changes in taxation than they are about the actual **level** of that taxation itself. (For my part I am much more interested in the actual bill that I have to pay!). In this context it is interesting to see how Central Government grant per head, Council Tax per head, and Local Authority expenditure per head has increased over recent years.

Figure 2 shows how these quantities have changed, in percentage terms, between the financial years 2001/02 and 2005/06

Percentage changes 2001/02 - 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. 2

The results for London are of particular interest. London had the smallest percentage rise in overall expenditure whilst simultaneously experiencing a cut in Central Government grant, (the only Region to suffer in this way). Yet it still managed to post the fourth highest rise in Council Tax. Clearly there is little meaningful relationship between rises, (or falls) in Council Tax and rises or falls in Local Authority expenditure. This is **not** just a matter of gearing - but, in this particular case, of a **change** in gearing!

Of course it can easily be argued that, since London **still** spends more per head than any other Region, they have less need than other Regions to increase spending - all “essential” spending being already covered. In fact, as illustrated in the scatter diagram, figure 3 overleaf, there is a pronounced trend during this period for the lowest spenders (in 2005/06) to show the biggest rises in Council Tax over the period.

For what it is worth the correlation coefficient for the data shown in figure 3 is minus 0.75.

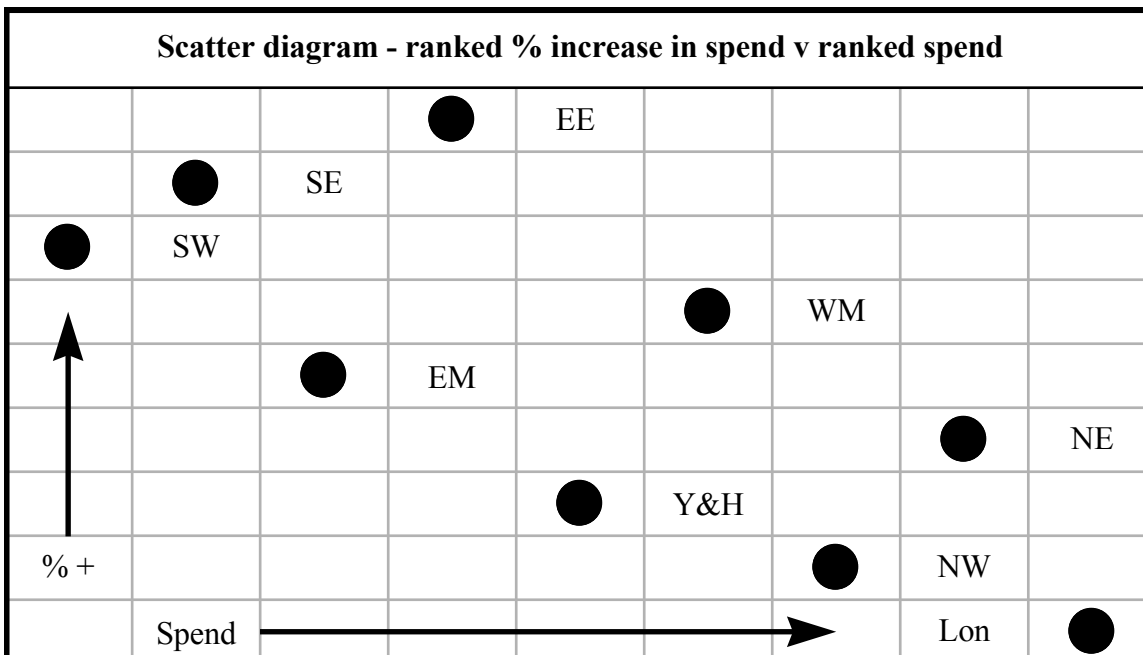


Fig.3

Visually the trend is obvious. One way of looking at this result is to observe that Councils are becoming more alike in their expenditure patterns. Why should this be? I can think of two possible explanations:

- Local electorates may, at last, have started to get fed up with high spending Local Authorities and the Local Authorities have responded by cutting the growth in their expenditures
- Central government diktat and micro-management from Whitehall is forcing Local Authorities to become more alike.

The first explanation would represent excellent news for local democracy. The second would be quite the reverse. So, which explanation is correct?

Sadly, I have to take the pessimistic view. If we examine the District election results for 2003 we can discern no pattern showing that high spending Local Authorities or those that imposed large increases in Council Tax were “punished” by their local electorates. Figure 4, (overleaf), presents an analysis of these results in which I have looked at whether the largest party before the election gained or lost seats and whether the tendency to gain or lose seats was in any way connected with the average spend or the average increase in Council Tax. I think that the results speak for themselves. There is no pattern. It doesn’t even seem to make much difference whether the largest party had overall control or not!

	Win/ Lose	Num	Spnd	CT % increase		
				01/02 02/03	02/03 03/04	01/02 03/04
No control	-	51	1319	9.2%	13.0%	23.5%
No control	0	17	1284	10.1%	15.0%	26.6%
No Control	+	42	1315	9.5%	13.1%	23.8%
Control	-	127	1339	9.4%	11.9%	22.4%
Control	0	33	1338	9.8%	14.1%	25.4%
Control	+	38	1306	9.6%	13.4%	24.3%

Fig. 4

The small differences in spend, although they go the “right” way, are not really significant. The maximum spend per head in any Authority was £1816 and the minimum £1127. The small difference in Council Tax rises, which all go the “wrong” way, are not significant either. The two-year increases range from a minimum of only 1.2% to a maximum of 37.0%.

There are other reasons for preferring the more pessimistic explanation for Councils becoming more alike, including:

- If we compare the councils where there was a change in control as a result of the 2003 elections with those where there was no such change, we can find no discernible difference in subsequent Council Tax rises.
 - In the 84 councils which **did** experience a change of control, the average rises in Council tax were: 6.8% between 2003/04 and 2004/05; 4.4% between 2004/05 and 2005/06; making 11.4% for the two years. The corresponding rises for those where there was no change in control were 6.7%, 4.3% and 11.2%
 - Once again the differences, which go the wrong way, are insignificant compared with the range of results. The maximum and minimum rises for these years were 11.8%, 7.6% and 19.% in the case of the maxima and 1.0%, 1.1% and 5.1% in the case of the minima

- Whilst I can understand the pressures that might make hitherto extravagant Local Authorities become more frugal, I fail to understand why previously frugal Authorities should tend to become more extravagant - of their own volition that is
 - Broadly speaking, we would expect Local Authority expenditure at constant “output” to rise at a rate intermediate between the retail price index, (up 10.6% in the period concerned) and the average earnings index (up 15.8%). The actual rises in those Regions were at the very top of this range, and, in one case, even above it.
- With total Local Authority expenditure being very highly correlated with the size of Central Government grants, there is very little scope for major differences relating to what local electorates demand
 - This is a mathematical point - not a political / systemic one.

2.2 The breakdown of local democracy

I believe that the main reasons for the breakdown in the relationship between local taxation and local spending are:

- Local Authorities are micro-managed from Whitehall. Both the raising of “local” taxation and the way in which it is spent is controlled by Central Government.
 - Central Government, (by what used to be known as the Formula Spending Share) determines what it thinks that each Local Authority “ought” to spend. It also determines how much it thinks that each Authority should raise “locally” through Council Tax, (SANCT). The difference is the amount of Central Government grant awarded. If Local Government disagrees with Central Government on spending needs, (or even what something should cost), they have very little scope. If Local Authorities try to raise Council Tax by more than Central Government thinks is appropriate, then Central Government can “cap” them. The result is that Central Government, in effect, sets the **rate** for so-called “local” taxation
 - The present government is on record as claiming that it is Local Authorities which determine the rate of Council Tax. To my mind this is a bit like saying that it is your local garage that determines the price of petrol. To the last penny or so it does - but the main determinants of petrol prices are the activities of OPEC and the Chancellor of the Exchequer.

- On average it is said that some 80% of all Local Authority activities and expenditure is centrally mandated. (Some Local Authority leaders have told Isitfair privately that in their case it is more like 90+% - and these are **not** the ones with high Central Government grants, where such control might be reasonable). Local Authorities are subjected to a range of centrally imposed targets, “best practices”, Gershon reductions and so on. This means that Local Authorities have very little **autonomy**.
- Local Government is expected to act simultaneously as both an **agent** and as a **principal**.
 - This almost inevitably confuses everybody - Local Government, the electorate and even Central Government. When these roles conflict, which role should be predominant? It would seem that Local Authorities are faced with a choice of either breaking the law or “letting down” their local electorates.
- Central Government funds, (presumably given for **national** priorities), are mixed up with locally raised funds, (presumably raised for **local** priorities).
 - Again, this tends to be confusing. When funds are “inadequate” which expenditures get priority - local or national objectives?
 - When services have to be cut through “inadequate” funding, the electorates don’t know “which bottom to kick”.

In summary, it would appear that the current arrangements for the split between Local and Central Governments in terms of powers and responsibilities is about as far as they could be from the idealised criteria developed in Part II of my report. This produces precisely the muddle that I would expect!

2.3 Representation of the people

The American War of Independence was fought on the slogan: “*No taxation without representation*”. Yet today we do have taxation without representation.

- People are only permitted to vote in **one** Local Authority. Those with weekend or holiday homes pay Council Tax on their second residence but have no votes there
 - It is interesting to note that some of the published submissions to the Lyons Inquiry actually make the proposal that second homes should pay **more** Council Tax than principal residences. Given that people living in two different places probably make less use of local services in any one of these places separately than do those who live in the same place all the time, this looks remarkably like “Let us steal from the voteless”

Today we might do well to consider reversing the American Independence slogan to read: “*No representation without taxation*”. When people have to pay themselves for the consequences of the preferences that they display at the ballot box, they have a much greater incentive to vote responsibly than when their preferences are paid for by somebody else.

In any welfare state funded by taxation where public services are provided free at the point of delivery it is inevitable that there will be virtually no connection between taxes paid and services consumed. While there does not seem to be much disquiet about such a situation at the national level, there does seem to be much more concern at the local level. The perception is that many local residents, who benefit from council services and who could easily afford to pay more, contribute little or nothing to those services while others, whose ability to pay is much less, can end up having to pay as much as 25% of their income in Council Tax. The problem is that many of those who vote for local services do not have to pay for them, whereas others, who make little or no use of those same local services, have to foot the bill.

This can result in a perverse incentive towards high spending, high taxation and wasteful provision of services. Anybody who only pays for (say) 25% of the cost of the services that he uses will still get very good value for **his** money even if the services cost twice what they “should” do. He will be getting services of twice the value of his own contribution. Meanwhile someone **else** will be paying the difference. This is a problem with any progressive tax system. The situation is of course even worse where a voter makes **no** contribution to the cost of the services that he votes for.

Although the numbers of voters who escape Council Tax is much smaller than many of the complainants believe, (many of these “non-payers” are in fact the partners of householders who do pay), there remains a substantial minority of people with the vote who make no real contribution at all.

- Students in full time education have the right to vote but are exempt from paying Council Tax
- People in receipt of 100% Council Tax Benefit in effect make no contribution either.
 - There has to be something seriously wrong with any system of taxation in which the bills can only be met by resorting to benefits. At the very least, CTB should be independent of the **actual** levels of Council Tax being faced by the individual recipients. If the level of benefit were fixed for all recipients at the **average** level of tax over **all** Local Authorities, then individual beneficiaries would have a very real incentive to vote for frugal Local Authorities. They would be able to pocket the difference, or, in the case of extravagant ones, have to fork out the extra themselves!

- Households with more than two adults pay no more Council Tax than two adult households, yet, services are largely consumed by **people**.
 - This problem is mainly associated with young people - young professionals sharing a larger house or adult children still living with their parents.
 - It is perhaps worth noting that there is another perverse incentive at work here. Large houses that are “officially” sub-divided count as separate residences for Council Tax purposes. Those where the sub-division is “unofficial” do not. This problem is particularly acute in areas of expensive property, like London. A properly sub-divided house might well convert what would have been a single Band H property into (say) three Band G properties. The difference in overall Council Tax payable would be 150% if none of the smaller properties benefited from the 25% reduction for single occupancy - and it would still be 100% even if all of them did.

One of the (very few) advantages of the poll tax, at least **in theory**, was that everybody who had the right to vote had to make a contribution to funding what they voted for. The main problem with the poll tax was that it was simply asked to take too great a share of the revenue raising burden. Since, in addition, the poll tax took no account, (again in theory), of people’s ability to pay there really were some genuine cases where it caused real hardship - in addition to those people who could really pay but resented being asked to make a contribution to local expenditure when they had previously escaped scot free.

3. COUNCIL TAX

3.1 The “fairness” of Council Tax

In Part II of my report I suggested that one of the (many) tests of “fairness” in taxation is that people in broadly similar financial circumstances should pay broadly similar amounts in tax. So, how does the Council Tax rate on this criterion? The answer is “not very highly”.

In fact it is easy to **prove** that it is mathematically **impossible**, given what we actually know about the distribution of Bands and household incomes, for incomes and Council Tax Bands to be well correlated on a **national** basis.

The Office for National Statistics publishes data on the income distribution of families in different regions of the UK, (Table 3.6 available on <http://www.statistics.gov.uk/StatBase/Expodata/Spreadsheets/D7579.xls>). What was the Office of the Deputy Prime Minister publishes data on the number of houses in each Band for each region of the UK, (<http://www.local.odpm.gov.uk/finance/stats/data/dwellnew2.xls>). These two pieces of data enable us to investigate what would happen if we were to fill up the housing stock in each region in such a way that nobody in a property of any particular Band **within** any region were to be poorer than anyone in a property in a lower Band in the same region. Figure 5. shows some of the results of such an exercise - which is the **best** that could be achieved given the current regional mix of property Bands.

	Band A	Band B	Band C	Band D
North East	55.7%	44.3%	0.0%	0.0%
North West	0.0%	100.0%	0.0%	0.0%
Yorks & Humber	0.0%	100.0%	0.0%	0.0%
East Midlands	0.0%	100.0%	0.0%	0.0%
West Midlands	0.0%	100.0%	0.0%	0.0%
Eastern	0.0%	4.5%	95.5%	0.0%
London	0.0%	0.0%	40.2%	59.8%
South East	0.0%	0.0%	100.0%	0.0%
South West	0.0%	0.0%	100.0%	0.0%
Percentage of households with incomes between £300 and £400 / week who could live in various property Bands				

Fig.5

Although this data is now a little outdated, Figure 5 does illustrate how people on a particular income in the North East can live in lower Banded property than people on similar incomes in other regions - especially London and the South East.

This would not matter if the Government did not try to equalise Council Tax on all properties, (wherever they are in the country), in the same Band, and ensure that any differences are down to Local Authorities spending more or spending less than the Government thinks that they “should” do. However this is what the Government actually does **do**. As noted by Leicester City Council in their submission to the “official” Lyons Inquiry, if all Local Authorities were to spend at their assumed FSS level, then Band D Council Tax would be the same for every Local Authority in the country, (a bit of an over-simplification - but not too far from the truth!). The same would also be true for any other Band: Band A Council Tax would be uniform across the country, so would Band B and so on.

The result is that people on the same incomes, but in different parts of the country, pay widely differing amounts in Council Tax - and these differences have relatively little to do with whether or not they live in an extravagant or a frugal Local Authority area.

It seems obvious that if people in **similar** financial circumstances pay very **different** amounts in Council Tax, then there must be instances of people on **lower** incomes paying **more** tax than others on **higher** incomes. For example, if people on a given income in the North East can live in much less highly taxed property than people in, say, the South East, (and figure 5 demonstrates that they **can**), then it is clear that some people in the North East can actually enjoy a higher income than some people in the South East and **still** pay less Council Tax.

Indeed, on the basis of the same figures as were used to construct figure 5, 56% of North Eastern households in the £300 - £400 per week income bracket can get away with paying Band A Council Tax whereas 35% of London Households with an income of less than £100 per week have to pay Council tax at the higher Band B rate. This contravenes one of my other criteria for “fair taxation i.e. that nobody with lesser means should pay more tax than those whose means are greater.

If we want to make a proper analysis of the degree to which the Council Tax system forces people on lower incomes to pay more tax than some others on higher incomes, we would need to have good figures for the income distribution in different Local Authorities. Unfortunately no such published data is available.

However, the Inland Revenue **does** publish figures, (for 2003/04), for the mean and median incomes for the residents of each Local Authority. Given that we know the Council Tax per dwelling and the Band mix, (i.e. the number of houses in each Band), in each Local Authority, it is easy to work out the value of the median Council Tax bill for households in each Local Authority. If we use the assumption of the perfect match between income level and housing Band within each Local Authority, (any other assumption would make the Council Tax look even more “unfair”), then we can assume that people on **local** median incomes will pay the **local** median Council Tax bill. This enables us to determine whether there are any Local Authorities whose residents pay higher (median) Council Tax bills while simultaneously enjoying (!) lower (median) incomes than residents of some other Local Authorities. The fact is that there are a large number of such Authorities - including some very extreme examples.

- For example, people in Purbeck enjoy a median income of £15,100 and pay a median of £1,218 per home in Council Tax. Typically people at this sort of level of income pay £905 per home in Council Tax, which is £313 less. The typical income of people paying this amount in Council Tax is £18,886 - which is £3,786 more. Of the 320 English Billing Authorities outside London, 192 charge their residents less in Council Tax despite these residents having a higher median income than those in Purbeck. In contrast, there are no councils whose residents pay a higher median Council Tax out of smaller median incomes. Let us look at some concrete examples: Wakefield only charges a median Council Tax of £657 which is £560 less than Purbeck but the median income of their residents is £15,500 which is £400 more. Guildford charges a median of £1,140 per home but residents' median income is £21,100 - which is £6,000 more.

This is not an isolated example. In fact there are only 12 English Local Authorities outside London that do not “lose out” to some other Local Authority in this sense. Three of them, (Eden, Rother and North Devon), “lose out” to more than 200!

A summary of the number of Local Authorities “losing out” and the degree to which they do “lose out” is given in figure 6.

Range	Num	Range	Num
1 - 4	48	40 - 49	18
5 - 9	32	50 - 74	40
10 - 14	35	75 - 99	17
15 - 19	20	100 - 149	25
20 - 29	33	150 - 199	8
30 - 39	29	200 +	3

Fig. 6

One of the disturbing things about the analysis which leads to the data shown in figure 6 is the way in which it appears to show how one particular Region, the South West, does very badly out of the Council Tax system.

- The average number of other Authorities to which Local Authorities in the South West “lose out” is just over 80. This is almost double the number for the next highest Region, the West Midlands Region, which, on average “loses out” to just over 40.

- Actually, many of my analyses, based on several different data sets, show that the South West, (along with the South East and, to some extent, the Eastern Region), does tend to be unfairly discriminated against by the Council Tax system. I also find that the Shire Districts tend to lose out with respect to the Unitary Authorities who, in turn, tend to lose out to the Metropolitan ones. This latter trend is also evident in the results underlying figure 6. On average, Shire Districts tend to “lose out” to around 46 other Authorities, Unitary Authorities to around 27 and the Metropolitan Authorities to around just 12.

As I remarked earlier, a proper analysis of the relationship between Council Tax bills and incomes would require us to have detailed data about incomes distributions within Each Local Authority. Since no such data has been published, I have had to resort to a model of income distribution to make any further progress.

This particular model has been used (very successfully) in many different countries for the assessment of infrastructure investment proposals. When applied to the English Local Authorities, this model reproduces all the published data within an accuracy of around 1%. Obviously, one needs to be very careful when using any model to analyse “real” situations. However, I have reasonable confidence that using this model does not distort the results significantly. Not only is the incomes data consistent with everything that has been published, the conclusions arrived at from using the model are, so far as I am aware, never inconsistent with results that do not depend upon its use.

Using this model does enable me to arrive at some sort of picture of the incidence of Council Tax in different Regions and different types of Authority

- In particular, I have used this model to examine what percentage of people, in each Bill Collecting Local Authority, (outside London), are forced to pay at least 10% more in Council Tax than people on similar incomes elsewhere - purely as a result of the different Banding mix and different levels of Council Tax.
 - In undertaking this analysis I have made my usual assumption that people live in the most “appropriate” available housing for their incomes - i.e. the poorest all live in the cheapest / most lowly Banded houses, the richest live in the most expensive / most highly Banded and so on.
- I have also used the model, and the same assumptions, to determine what percentage of people in each Local Authority are paying at least 10% less in Council Tax than people on similar incomes elsewhere
- Finally I have used the model to determine how much each Authority gains or loses in terms of Central Government grant on the assumptions that people on similar incomes should pay similar amounts of Council Tax and that the average amount at any income level across the country is, somehow, “right”

In using the model I cover people at all income levels with incomes from £0 - £50k being treated in bands only £1k apart. Between £50k and £80K, the income brackets are £5k wide and above that level £10k wide.

The results of these analyses are shown in figures 7 and 8.

	% of people paying >10% too much CT for their income level				% of people paying >10% too little CT for their income level			
	Shires	Units	Mets	Regn	Shires	Units	Mets	Regn
NE	15.0%	2.0%	2.0%	6.1%	17.7%	41.7%	55.4%	40.0%
NW	20.3%	1.4%	1.8%	8.1%	5.5%	48.8%	49.5%	34.4%
Y&H	53.6%	2.3%	0.7%	7.3%	0.3%	29.9%	78.1%	58.5%
EM	13.6%	5.5%		12.0%	17.0%	69.3%		27.1%
WM	23.8%	25.3%	1.2%	16.3%	3.3%	14.4%	60.3%	27.3%
EE	41.4%	1.0%		36.6%	5.1%	58.8%		11.5%
SE	58.3%	18.4%		48.1%	1.6%	22.8%		7.0%
SW	47.2%	13.2%		34.6%	0.5%	8.8%		3.6%
Eng	38.0%	13.0%	1.4%	23.3%	5.5%	27.8%	61.4%	24.4%

Fig. 7

	£ Millions “Misallocated”			
	Shires	Units	Mets	Regn
NE	0.4	-20.8	-49.0	-69.4
NW	32.3	-22.8	-168.5	-159.0
Y&H	29.0	-27.7	-208.4	-207.1
EM	-12.3	-38.2		-50.6
WM	40.1	-10.5	-110.0	-80.4
EE	143.3	-31.9		111.4
SE	317.4	-14.9		302.5
SW	144.6	7.9		152.5
Eng	694.8	-159.0	-535.8	0.0

Fig. 8

Both sets of data show very clearly that, on the basis that people on similar incomes “should be” paying similar amounts of tax, the South East, the South West and the Eastern Regions all pay too much tax, (because of the way in which Central Government grants are skewed), whereas the North East and the Yorkshire and the Humber Regions do rather better than they “ought”. These figures also show how the Shire Districts are penalised and the Metropolitan Districts rewarded with the Unitary Authorities coming somewhere in between

- Insofar as the information in figure 8 is concerned it would appear that most of the under-funding of some Regions and the over-funding of others is down to the differential treatment of Shire Districts and Metropolitan Authorities.
 - This is indeed the case, but the preferential treatment of Metropolitan Authorities does not explain the results illustrated in figure 7. The main reason for these results is that house prices, and hence Council Tax Bands, are driven mainly by the incomes of people in the upper deciles, (mainly the 7th). The poor in the richer areas are the ones who suffer most.

The third test of “fairness” that I suggested in Part II of this report, and which applies specifically to **local** taxation is that people who receive better services from their Local Authority should, in general, pay more tax than those resident in other Local Authority areas who do not receive such good services.

Given that there is no really objective test of how good services are, this is a somewhat difficult criterion against which to assess the Council Tax system. However, as I showed in Section 2 of this part of my report, there is very little evidence that the differences in spending as between one Local Authority and another are driven by “need”. Given this, it seems not unreasonable to use total spend as a proxy for the quality and quantity of the services provided. (If this is not the case, then why spend the money at all?)

Since there is a negative correlation between Local Authority expenditure and the amount of Council Tax that is raised from the residents, it would appear that there is a *prima facie* case of “unfairness” against the Council Tax on this point too.

In this context it is pertinent to examine whether it is possible **simultaneously** to improve **both** the correlation between average Council Tax and average incomes for each Local Authority **and** to improve, (i.e. make positive), the correlation between Council Tax and Local Authority expenditure. The answer to this question is in the affirmative. We can indeed achieve such an “improvement” through adjusting Central Government grants. (Whether we should actually **do** this is another question).

There are actually a number of ways in which Central Government grants can be altered to achieve this “improved” situation. However, if we try to make the Council Tax no more progressive or no more regressive than it currently is, we find that there is very little freedom of manoeuvre. The value of the Central Government grant to each Authority is more or less determined by these three criteria. The really interesting point is how the over or under-funding picture would change with such a reallocation of Central Government grants.

Figure 9 shows the difference in Central Government grants between the current situation and the “improved” situation. Once again we get a picture very similar to that shown in figure 8, although, as I should stress, I have **not** used any model to arrive at this result.

	Shire	Unit	Met	Total
North East	-3.8	36.0	66.6	98.8
North West	-67.1	28.5	276.9	238.3
Yorks & Humber	-45.4	12.8	241.1	208.5
E Midlands	-51.4	54.6		3.2
W Midlands	-83.7	4.4	261.2	181.8
Eastern	-176.3	40.8		-135.5
South East	-324.0	29.1		-294.9
South West	-246.4	-53.9		-300.3
England	-998.1	152.2	845.8	0.0
Current under (-) or over (+) payment of Central Government grants in £m when compared with income and Local Authority expenditure at the same level of progressiveness				

Fig. 9

I should stress that I am **not** recommending that Central Government grants should be altered so as to achieve the “improved” correlations mentioned above (and which led to the results shown in figure 9). After all, it is still possible that high spending Authorities really are responding to the “needs” of their electorates. However, as already mentioned, if all Authorities spend according to what Central Government thinks that they should spend, then Council Tax for any Band would be uniform across the country. This enables us to determine whether or not any Local Authority is indeed “overspending” - according to Central Government that is.

We know the Band D Council Tax, the average Council Tax per dwelling, the total number of dwellings and the number of dwellings in each Band for every Local Authority. All we have to do to assess which Authorities are overspending, and by how much, is to work out what the total Council Tax yield across all Authorities is currently and then work out what uniform Band D rate would give the same yield. We can then compare this rate with the rate actually charged and thereby determine who are the under or overspenders. We can also work out the total amount by which any Authority under or overspends by multiplying the Council Tax per dwelling for each a Authority - as implied by this uniform Band D rate- by the number of dwellings within that Authority and subtracting this from their actual spend, (or Council Tax yield). When we do this, we once again find a fairly consistent pattern:

- According to Central Government, Shire Districts tend to overspend, (by 24 to 10 in terms of numbers at the county level). Unitaries tend to under-spend, (by 28 to 18), and Metropolitan Authorities tend to under-spend by even more. Overall, although Central Government might get a better “handle” on local needs for any single Local Authority, it is highly unlikely that Central Government would make better estimates than **aggregates** of Local Authorities - and certainly not estimates conforming to any pattern. So what is the probability of such a pattern emerging by chance?
 - If we were to take the Shire Districts as independent entities, the probability that the difference between the number of over-spenders and the number of under-spenders would be as big, or bigger than it is is vanishingly small, (many millions to one against). However, this is not really the right thing to do. The Shire Districts are not independent entities, since Districts within the same county will have many of the same precepts levied upon them, (the County Council precept, the Police Authority precept, possibly the Fire Authority and so on). I have therefore aggregated the Districts within each county and examined the results for Shire Counties as a whole. On this basis, the probability of the actual results, in terms of the difference in numbers of over-spenders and under-spenders, being as large as or larger than it is is still only 1.2% - which is statistically very significant.
 - Although the Unitary Authorities are not independent entities either, the degree to which their spending is interdependent as a result of sharing some Fire and Police Authority precepts is nothing like so great as the interdependence of the spending of the Shire Districts. I have therefore treated the Unitaries independently and not aggregated their results in any way. In their case the probability that the difference between the number of over and under-spenders would be as great as or greater than that actually found is 11.6%. Although indicative, such a result would not normally be regarded as statistically significant
 - There are simply too few independent Metropolitan Authorities to draw any sensible conclusions about how likely or otherwise it would be for the results to occur by chance.

Of course an under-spend by any particular Local Authority could just as easily be interpreted as an over-funding of that Local Authority by Central Government. Similarly an over-spend could be seen as an under-funding. It is interesting to note that the apparent under or over-funding obtained by the two completely independent methods used to produce figures 8 and 9 is entirely consistent, in terms of the differences in over or under-funding between Shire Districts, Unitary and Metropolitan Authorities, with the results obtained by this third method of examining supposed under or overspending. (No significant Regional differences show up on this method).

The amounts by which the different classes of Authority over or under spend are somewhat less than the amounts by which they appear to be over or under funded when assessed by other methods. What appears to be happening is that the fortunate Authorities are using their “unwarranted bounty” partly to spend on pet projects and partly to “bribe” their electorates with lower Council Tax bills.

In summary, the Council Tax system fails when measured against every single one of the criteria of “fairness” that I suggested in Part II of this report. There is no equality of sacrifice, no equality of benefit and no equality of contribution. The incidence of the tax is too haphazard for that. The incidence is also too haphazard to ensure that people in broadly similar financial circumstances pay broadly similar amounts in tax - in fact I have shown that they don't - and it is also too haphazard to ensure that people of lesser means don't pay more tax than those whose means are greater - and indeed I have shown that they do. Finally there appears to be no relationship between tax paid and services received. People in some Authorities do seem to be paying for people in other Authorities to enjoy better services than they receive themselves.

3.2 The “affordability” of Council Tax

It would be difficult to argue that Council Tax was “unaffordable” on any truly objective measure. After all Council Tax collection rates are high, (higher than for most other taxes - and “improving” as well). This means that people **are** somehow actually managing to pay their Council Tax bills - even if this might mean resorting to dipping into their savings or claiming Council Tax Benefit. The question is not therefore whether or not Council Tax is actually “affordable”, (it is), but whether paying it can cause “undue” hardship.

The traditional way of measuring the “affordability” of any tax is to examine what percentage of disposable income the tax takes for those on the lowest incomes. Unfortunately the data available from government sources is not wholly consistent on this point. For example, the ONS publishes data, (<http://www.statistics.gov.uk/articles/nojournal/taxesbenefits200405/table24.xls>), which purports to show the redistributive effects of all taxes and benefits when taken together. Table 24, available on the reference just given, ranks households into deciles according to their gross non-equivalised income. It also gives information on the size of Council Tax bills experienced and the amount of Council Tax Benefit awarded within each gross income decile.

The Family Expenditure Survey also purports to show the expenditure of UK families ranked by gross income deciles, (Table A8), and the detailed housing costs, (Table 2.3), that they experience. However, the expenditure of families in the bottom decile appears to be consistently and substantially above their cash incomes, (using figures obtained from Table 24), after all taxes and benefits - other than those related to Council Tax - are taken into account.

One of the minor “mysteries” surrounding most of the government’s survey based data on income distributions is that substantial numbers of people appear to exist on no income at all! Clearly, this is nonsense, and I suspect that what has happened in compiling Table 24, (and much other similar data), is that some people, (and I used to be one), experience very wide variations in their **weekly** income, (sometimes zero, sometimes several thousand of pounds in any week), and it is weekly income that tends to be surveyed. This tends to make the income distribution look a lot wider than it really is. Generally speaking I would expect **expenditure** to give a better picture of an individual or family’s means, (because it averages out these fluctuations). I would also expect that expenditure and the fraction that tax takes of that expenditure, to be a much better measure of **affordability** than surveys based on weekly incomes. After all, however they manage it, people **do** actually spend the money that they do spend - and so therefore they must have managed to “afford” it!

Figure 10 shows the proportion of income taken by Council Tax in each income decile according to various measures.

Family Expenditure Survey - annualised data										
Income	7660	9273	12935	16270	19412	22663	25464	29552	34564	48134
CT	284	436	570	786	866	926	961	1038	1119	1314
CT % Income	3.7	4.7	4.4	4.8	4.5	4.1	3.8	3.5	3.2	2.7
Table 24 ONS (Gross disposable household incomes - pre Council Tax and Council Tax Benefit)										
Income	6448	9999	12849	16023	19475	23307	27852	33656	42308	71221
CT Gross	737	786	822	854	900	958	988	1037	1141	1310
CT % Income	11.4	7.9	6.4	5.3	4.6	4.1	3.5	3.1	2.7	1.8
Table 24 ONS (Gross household incomes - before benefits and taxes)										
Income	4294	7096	9697	14127	19225	24557	31353	39365	51085	90655
CT Gross	737	786	822	854	900	958	988	1037	1141	1310
CT % Income	17.2	11.1	8.5	6.0	4.7	3.9	3.2	2.6	2.2	1.4
My Income Distribution Model (Gross personal incomes before benefits & taxes)										
Income	4068	6480	8669	11323	14281	17292	21191	26724	36632	64596
CT Gross	746	778	816	851	895	938	1001	1089	1291	1745
CT % Income	18.3	12.0	9.4	7.5	6.3	5.4	4.7	4.1	3.5	2.7

Fig. 10

There are a number of noteworthy points in this diagram:

- The actual **levels** of Council Tax bills quoted in the Family Expenditure Survey for the bottom income deciles are substantially lower than the amounts charged by **any** Local Authority. It is obvious therefore that these bills are quoted **after** any Council Tax Benefit has been taken into account.
 - If we use either the figures given in my model, or the figures given in the ONS Table 24, for the **gross** Council Tax bills faced by those in the bottom decile, (and the two sets of figures are very close!), then it is clear that, were it not for Council Tax Benefit, people in the lowest income decile would be paying, on average, around 10% of their **net** (FES) incomes in Council Tax
 - Given that some people claim 100% Council Tax Benefit it is obvious that others will not be receiving anything like the **average** amounts given in the Family Expenditure Survey. Indeed Isitfair is aware of people in this income decile who are not entitled to **any** Council Tax Benefit. Given also, that there are always people **below** the average income in any decile, some people who do not qualify for any Council Tax Benefit will be paying an even **higher** proportion of their net incomes than the 10% that represents the **average** for gross Council Tax bills. (The disposable income of “typical” people in the bottom decile includes very substantial amounts of cash benefits - for which not everybody qualifies. Some people must be spending very substantial percentages of their net incomes on Council Tax. Isitfair is aware of people paying up to 25%!)
- The second set of data, which represents the disposable household incomes, i.e. after benefits and taxes, (except for Council Tax and Council Tax Benefit), from Table 24 shows incomes in the upper deciles considerably greater than the Family Expenditure Survey data. This **could** be merely because people in the upper deciles tend to save more. However, the gap would appear to be too large for this to be the full explanation, (it is inconsistent with other Government data on people’s savings). It is much more likely to be the result of surveying **weekly** incomes - where sampling errors will cause them to appear too low at the bottom and too high at the top, (because a person’s average weekly income is neither as high as their maximum weekly income - and some people **will** be surveyed during the week when they experience their highest weekly income - nor as low as their minimum one - when again some people responding to the survey will be experiencing their minimum weekly incomes, which might quite possibly be zero!).
- If we look at the average Council Tax bills in each decile we note that, with the exception of the Family Expenditure Survey data, the bills from my model and the ONS Table 24 are very similar at the bottom end of the income distribution but less so at the top. This is because I make the assumption, (in this particular set of results), that people live in the most “appropriate” housing for their incomes. This appears to be true for the really poor but at the higher income levels there is considerable “mixing” - probably because people tend to stay in the same houses even when their income “declines through retirement.

- This is consistent with most longitudinal surveys - which show that most people in the upper income deciles are only there for part of their lives. When they are young, their income tends to be on an increasing trend - so they move up the decile rankings - when they retire, their incomes decline - so they move down the decile rankings again. There is much less movement between the lower deciles.
- The similarity of Council Tax bills between my idealised model and the supposedly “actual” bills from the ONS Table 24, would indicate that the vast majority of people in the bottom income decile **do** live in Band A houses. This is consistent with Michael Orton’s report for the Joseph Rowntree Foundation, which showed that **most** people experiencing difficulty with their Council Tax bills, (who are presumably those on the lowest incomes) live in Band A houses.
 - There are however some serious flaws in the Joseph Rowntree methodology:
 - Michael Orton’s report assumes that “people having difficulties paying their Council Tax” is synonymous with “people who have received summonses for non payment of Council Tax”. I believe this to be nonsense:
 - I would argue that **anybody** having difficulty coping with debt will face difficulties in paying **any** bills - whether for Council Tax or any other demand. The number of County Court Judgements for debt is many times the number of summonses for non-payment of Council Tax! The probable reason for this is that all Citizens’ Advice Bureau debt counsellors advise their clients to pay their Council Tax bills **first** - and the responsible ones do!
 - Most of the people who are summonsed for non-payment of Council Tax pay up in the end. They may have “difficulty” doing so, but they do actually manage. Given this it appears obvious that it is the more feckless and socially irresponsible people who tend to get summonsed. These are the very people most likely to have never had incomes sufficient to enable them to live in anything other than Band A houses!
 - There are more Band A houses in England, (29.2%), than there are of any other Band. In some parts of the country the percentage reaches 80.6%, (in Easington). Given this, it is scarcely surprising that most people “experiencing difficulty in paying their Council Tax” live in Band A houses! It would be much more meaningful to look at percentages of people in the various housing Bands!

This last point above raises a completely separate issue. Although it is possible in most parts of the country for people on the lowest incomes to live in Band A houses, there are some parts of the country where this is **not** the case. There are simply not enough Band A houses to go round.

The Department for Work and Pensions publishes data on the percentage of people in each Region who are living in “poverty”. Figure 11 shows these percentages (albeit data from some years ago), and compares them with the availability of Band A houses.

	NE	NW	Y& H	E Mid	W Mid	E of E	Lond	SE	SW
Percentage of housing in Band A	59%	44%	46%	39%	32%	14%	3%	9%	17%
Percentage living in relative poverty	28%	24%	23%	22%	26%	17%	23%	16%	22%
Ratio of Band A to paupers	2.09	1.82	1.99	1.76	1.25	0.85	0.15	0.54	0.78

Fig. 11

It is clear from this diagram that not everybody living in London, the Eastern Region, the South East and the South West who is experiencing “poverty” can live in Band A houses. The table also shows that it is obvious that some people, even in the bottom income decile, in London and the South East cannot be faced with the lowest Council Tax bills. They must face bills considerably higher than the average for the decile concerned! Given my observations about many people in the bottom decile being below the average income for that decile, and that they are not necessarily eligible for Council Tax Benefit, (and possibly even some other benefits), it is probable that some people are facing Council Tax bills representing proportions of their net income which are very substantially higher than the average for the bottom income decile. This suggests that, for these people, Council Tax is not really “affordable” without causing “undue hardship”.

- It could be argued that “poverty” has been substantially reduced since the numbers shown in figure 11 were compiled. This is true - but only “statistically”. “Poverty” is defined as people living on less than 60% of the median income. If you live on 60.01% you are not in “poverty” - but you are not much better off! It so happens that 60% of the median income almost coincides with the **mode** of the income distribution. Small changes in incomes, whether it be a small reduction in the median or a small increase for those near the 60% of median figure, will produce substantial reductions in **statistical**, (but not real), “poverty”. An examination of the actual distribution of income shows that this is what has happened. People are only **very marginally** better off!

Whether or not Council Tax is “affordable” **now**, it is obvious that Council Tax must have been becoming **less** “affordable” than it was - and this trend appears to be continuing.

Since it was introduced on April Fool's Day 1993, the average Council Tax has more than doubled. Even average earnings have not managed to keep pace. When we remember that average earnings grow faster than the basic state pension, (which grows broadly in line with the Retail Prices Index), and that many pensioners have pensions based on annuities that do not increase at all, it is obvious that some people must be very hard hit indeed. Figure 12 shows how both average earnings and average Council Tax bills have grown, (on an index basis), since 1993.

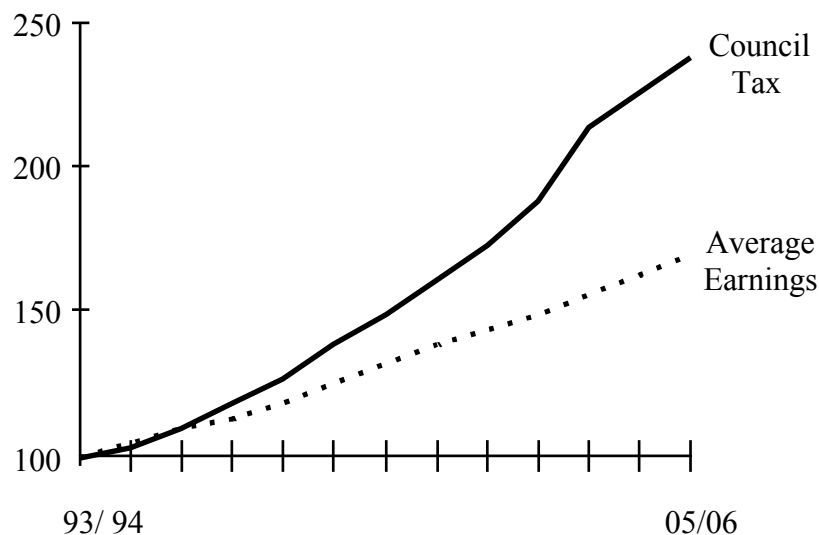


Fig. 12

Nobody likes paying tax - and people especially dislike paying taxes which rise faster than their ability to pay them. Because Council Tax has grown considerably faster than either inflation or median earnings, many people, especially those on low fixed incomes, or on low incomes linked only to retail prices, such as some pensioners, are now suffering real hardship.

Indeed, as the former (Labour) Minister for Local Government, Nick Raynsford, has acknowledged, the trend in Council Tax rises is clearly unsustainable. Even with the threat of “capping”, (the “cap” is usually above both the rate of inflation and the average earnings index), Council Tax is still rising faster than most people's incomes - and parish precepts, which used to be quite low, are “uncapped” and rising.

3.3 How “good” or “bad” is the Council Tax

Apart from the (very important) issues of “fairness” and “affordability”, Council Tax is actually quite a “good” tax when measured against the somewhat idealised criteria developed in Part II of my report.

- It is not a transaction based tax and so therefore is unlikely to do much damage to the economy

- It is cheap to collect and difficult to avoid
 - The cost of collection may look high when compared with the cost of collecting Income Tax. However Income Tax only looks cheap to collect because it raises so much revenue. If the Council Tax were to be set at a rate which raised the same revenue as Income Tax does, then it would be much cheaper to collect than Income Tax is!
- It is easily understood both by those collecting it and by those who have to pay it
 - From the tax collector's point of view its yield is predictable
 - The taxpayer has no difficulty in understanding how his bill, relative to other people's bills, is arrived at - although he may find it difficult to understand why it has gone up so much!

4. COUNCIL TAX AND LOCAL GOVERNMENT

In the Introduction to this part of my report I drew attention to the observations that the turnouts at local elections appear to be on a declining trend and that local taxation, and especially the Council Tax, is becoming increasingly unpopular.

- I would suspect that the fundamental reason for the unpopularity of the Rates, the Community Charge and the Council Tax is that the bills faced by many taxpayers appear(ed) to them to be **too high**. If these bills were to be significantly lower, one doubts whether many people would be much concerned about the "fairness" or "unfairness" of any of these taxes
- As I indicated in Section 2, I believe that the main reason for declining turnouts in local elections is that local people feel disenfranchised. There appears to be no connection between local taxation and the quality or quantity of local services provided
 - Local taxation funds more than just the **discretionary** spending of Local Authorities.

Obviously, these points are all interconnected. For example: if local taxation matched local discretionary spending, then the local electorate would not feel disenfranchised; if local taxation were not so high, then people's ability to pay it would be greater and it would not then be seen as so "unfair"; if local taxation only funded the current level of discretionary spending then local tax bills would, on average, be lower.

Ever since the Balance of Funding Review it has been assumed that for every £100 spent by Local Government only £25 is raised locally. This may well have been true then, but it is not true now - at least not in England. In 2005/06 the overall figure for England was £31.56p. For London the figure was £28.44p and for the rest of England £32.21p. This is because rises in central funding have failed to keep pace with rises in Council Tax / Local Authority spending. This trend was already apparent at the time of the Balance of Funding Review report - as illustrated by figure 13 which shows the cumulative percentage increases in both Council Tax and Central Government grants in the period 1997/98 to 2004/05.

Year	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
C Tax	7.46%	17.89%	26.93%	35.74%	45.74%	59.14%	81.11%	94.04%
Grants	0.36%	5.81%	12.01%	20.90%	30.40%	37.84%	59.50%	63.41%

Fig. 13

It is also widely believed that for every £100 spent by Local Authorities only £20 is discretionary spend so far as Local Government is concerned. This does not mean that 20% of every Local Authority's spend is discretionary. Far from it. If 20% is anywhere near the truth, then it seems likely that, since the electorate tends to abhor the so-called "post code lottery", the discretionary spend in most areas will be much the same in **pound** terms - rather than percentage terms

On this basis, the average discretionary spending per head in 2005/06 would have been about £281 over England as a whole. At this level of spending, only one Local Authority, (Wandsworth), is not having some of its Council Tax diverted towards **national** rather than **local** priorities. It is certainly arguable that **national** priorities ought to be funded out of **national** taxation. The excess taxation, averaging out at £11.56p per £100 of Local Authority spend really "ought" to be funded by Central Government - he who calls the tune should pay the piper. On this basis, the average reduction in Council Tax "ought" to be about 36.6%. (If the Balance of Funding were still at 25%, then the reduction would have been only 20%. Such is the effect of gearing!)

An average reduction of around this magnitude would do much to defuse the ill feeling surrounding the Council Tax!!

On the basis of our assumption that discretionary spending is much the same for all Local Authorities, then **average Council Tax per head**, (or per dwelling) - but **not** Band D Council Tax - would be much the same across the country. This does not mean that everybody would pay the same, (as with the old poll tax): people living in the more expensive properties would still pay more than other people **in the same area** living in cheaper properties.

The reductions in Council Tax however would not be uniform across the country. Those places where currently Council Tax per dwelling, (or per head), is higher than average would see a bigger reduction than places where it is already much lower. I appreciate that some areas of the country might see such a change as “unfair”. However, I do not believe that it is “fair” to force **local** taxpayers of richer regions to finance other areas. Not everyone in the richer areas is himself rich! Why should somebody be forced to pay higher taxes simply because his neighbour is richer than he is himself? If people are on average richer in certain areas, (as in monetary terms they are), they already make a greater contribution than others through Income Tax and VAT. If necessary, they could be forced to contribute even more, as **national** taxpayers, (as could the richer people in poorer areas), so that Central Government could maintain the level of support to the poorer areas that they currently provide, (as, at least initially, they probably should). However it is important to realise that much of the apparent extra prosperity of certain regions has more to do with the cost of living than it does with purchasing power. In a sense the UK is already experiencing some of the problems of a single currency, (in this case the pound), applied over a non-optimal area.

In summary, I believe that the present system of Local Authority financing may be best described as one of **muddle**. With huge variations in the amount of funding raised locally and the amount raised centrally, there is very little relationship between levels of, or increases in, Council Tax and local expenditures.

It would seem that we need a better match between **power** and **responsibility** - something that is woefully lacking in the current system. Currently councils can afford to be profligate and can then twist the Central Government’s arm to increase the amount that Central Government provides. Equally, Central Government can dictate to Local Authorities what services they must provide and yet fail to give them the funds with which to discharge those responsibilities.

There is a lack of **accountability**. When the electorate complains about Council Tax, Central Government blames Local Government and Local Government blames Central Government. The result is that the local electorate is bemused and no longer thinks that it is worth voting for anybody.