



House of Commons

ODPM: Housing, Planning,
Local Government and the
Regions Committee

Local Government Revenue

Ninth Report of Session 2003–04

Volume I: Report



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Report, together with formal minutes

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The ODPM: Housing, Planning, Local Government and the Regions Committee

The ODPM: Housing, Planning, Local Government and the Regions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Deputy Prime Minister and its associated bodies.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/odpm.cfm. A list of Reports of the Committee in the present Parliament is at the back of this volume.

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The current staff of the Committee are Kate Emms (Clerk), Libby Preston (Second Clerk), Ben Kochan (Committee Specialist), Haidee Brockway (Committee Specialist), Ian Hook (Committee Assistant), Ian Blair (Chief Office Clerk) and Emma Carey (Secretary).

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Contents

Report	<i>Page</i>
1 Introduction	3
Historical background	3
Layfield Committee	3
Community Charge	3
Balance of Funding	4
Principles	5
Accountability	5
Constitutional Change	6
Local Authorities and People	7
2 What is the role and purpose of government grant?	8
Equalisation	8
How the local government finance system achieves equalisation	9
Control	10
What is the appropriate proportion of government grant?	10
Gearing	10
Reducing the impact of gearing	15
Variable grants	15
Balance of Funding	16
Other Grant Issues	20
Transparency over the basis of funding decisions	20
Three year budgets	22
3 The Role of Central Government	25
Capping	25
Passporting and Ring-fencing	27
Best Value and CPA	33
4 Council Tax - Is it a viable and adequate source of revenue	35
Advantages of council tax	35
Disadvantages of council tax	36
Revaluation	38
Reform	40
National Banding System	40
Regional banding	42
Regaining public confidence	44
Council Tax Benefit	45
Equity release schemes	49
5 Review of Local Income Tax as an alternative	50
Background	50
Positive aspects	50
Replacement for or supplement to the council tax	51
Negative aspects of local income tax	51

6	Business Rates	54
	Background	54
	Balance of funding: business rates	54
	Relocalisation	58
	Safeguards for business	61
	Equalisation	63
7	Different tiers of Local Government	64
	Two tier authorities	64
	Parish Councils	64
8	Alternative means of raising local revenue	66
	Central funding: 'IsItFair' Campaign proposals	66
	Options for local taxation	67
	Fees and Charges	70
	Land Value Tax	71
	Local Sales Tax	71
	Congestion Charge	72
	Workplace Parking charge	73
	Tourist Tax	73
9	The Way Forward	75
	Timetable	75
	Short Term	75
	Medium Term	76
	Long Term	76
	Conclusions and recommendations	77
	Formal Minutes	83
	Witnesses	85
	List of Supplementary Written Evidence	87
	Reports from the ODPM Committee since 2002	88

1 Introduction

Historical background

1. Property taxation has existed in Britain for many centuries, though its modern form is widely held to derive from the 1601 Poor Law. As local government developed during the nineteenth century, local authorities were given the power to levy a property tax, or “rate”, to fund their services. At this time, the right to vote was related to property ownership and it was decided that it would be appropriate to tax property owners as it would be they who benefited from locally-provided services.

2. Opposition to local taxation, or to aspects of its impact, emerged almost from the start. A number of politicians opposed the real or imagined profligacy of local government and the size of rates bills. Conservative politicians, notably Lord Salisbury, and Labour thinkers such as Sydney Webb questioned either the size of rates demands or their impacts on individuals, or both. In the 1920s, George Lansbury, as leader of Poplar Borough Council, effectively refused to levy part of the local rate on the residents of the borough.

3. From the early twentieth century central Government began to subsidise local authority services by grants or reimbursement of expenditure. After 1945, a significant proportion of the Welfare State developed within local government, with a consequent increase in council spending on services such as education, personal social services and social housing. Although central government significantly boosted central support for local authority spending, rates increased in real terms. By the 1960s, a small subsidy (the “domestic element”) had been introduced to reduce the size of household rates bills as compared to those paid by non-domestic ratepayers. However, the growth in inflation during the early 1970s pushed local taxation up to far higher levels than had previously been the case. In 1974, the average increase exceeded 30%.

Layfield Committee

4. As a response to the adverse political reaction to such huge rates rises, the government set up an inquiry into local government finance, chaired by (later Sir) Frank Layfield QC. The Layfield Committee reported in 1976, offering the Government a choice between a more centrally-controlled system of local authority finance or a system with greater local autonomy. The latter system, favoured by a majority of the Committee, would have required a significant increase in local financial autonomy and the introduction of a new source of local revenue.

Community Charge

5. In the event, no local tax reform took place. The post-1979 Conservative Government published a Green Paper in 1981 which considered alternatives to the domestic rates, including a local income tax, local sales tax and a poll tax. Once again, no reform occurred. A second consultative paper, published in 1986, proposed the introduction of a poll tax as a replacement for the domestic rate, though it was now re-named the “community charge”. The charge was introduced in Scotland in 1989 and England and Wales in 1990. At the same time, the non-domestic rate became a nationally-determined “assigned revenue”.

6. The community charge was short-lived, largely because of its unpopularity, though also because it was difficult and expensive to collect. In 1991, the government reduced the charge by £140 per head, transferring the burden on to Value Added Tax, which increased from 15 to 17.5%. A further review of local government taxation led to the replacement in 1993 of community charge by the council tax.

Balance of Funding

7. Following the decision to transfer the non-domestic rate to Whitehall control and also the £140 reduction in community charge, the proportion of local authority resources raised from local taxation had slumped to just 20% of revenue income. Although this proportion has now risen to 26%, there is still a significant problem for local government when raising revenue – each 1% on or off expenditure leads to a 4% increase or decrease in local taxation. This “gearing” effect has meant that as successive governments have encouraged aggregate local authority expenditure to rise slightly faster than the equivalent central support towards that spending, council tax has risen far more rapidly than spending. Many individual council taxpayers have faced significant real increases in their council tax bills. Just as in the mid-1970s, there have been demands for reform to the system of local government finance.

8. Such demands were originally concerned with local government freedom. However, the size of local tax increases, particularly in early 2003, has shifted the focus of concern, and has led to a degree of popular dissatisfaction with council tax among taxpayers, although it remains the favoured means of raising revenue in local authority circles.

9. In its December 2001 Local Government White Paper “Strong Local Leadership – Quality Public Services” the Government had already committed itself to establishing a high-level working group to consider in detail issues arising from the current balance of funding and options for change. Over a year later, in January 2003, the Government announced Terms of Reference for the review and a start date of April 2003. The steering group, consisting of senior figures from local government, academia, Ministers and expert officials, and chaired by the Minister for Local and Regional Government, has met eight times. It has commissioned a number of interesting and useful research papers, available on the internet. The intended output is a report drafted by the ODPM secretariat, summarising the issues discussed and setting out the pros and cons of a range of options for changing the balance of funding. **We commend the ODPM for its commitment to transparency on the progress of the review and for making a range of working papers publicly available, including the steering group minutes.**

10. In February 2004 the ODPM Select Committee resolved to conduct an inquiry into local government revenue in order to inform the public debate. The Terms of Reference were published on 26 February 2004:

The Committee has resolved to undertake an inquiry into local government revenue, looking in particular at the following:

- What is the role and purpose of Government grant in ensuring adequate local government revenue?
- Is the current balance between centrally and locally raised revenue appropriate?

- Should businesses contribute directly to local services?
- Is the council tax a viable and adequate source of local revenue?
- What other local taxes might be acceptable? (e.g. a congestion tax, workplace parking tax, tourist tax, earnings related tax or sales tax.)
- Should there be a ceiling on local government expenditure and taxation, and if so how should controls operate?
- To what extent does central Government control or influence contribute to local government expenditure and taxation?

We received more than thirty written memoranda, and held five public evidence sessions, taking evidence from a wide range of organisations and individuals, including Ministers from the ODPM, the Treasury and the Department of Education and Skills.

11. We are grateful to our advisers, Professor Tony Travers and Rita Hale, to Kirstin McLarty and to the House of Commons Scrutiny Unit, all of whom contributed greatly to our inquiry.

Principles

12. We have identified from evidence received several guiding principles for any system of local government finance -

- equity: it must be fair and be seen to be fair: as between different authorities, within individual authorities, and in its impact on individuals;
- simplicity: it must be relatively easy to collect, and as easy for a taxpayer to understand as is compatible with equity and accountability;
- flexibility: it must be adaptable to changing economic and constitutional circumstances;
- transparency: it must provide for a visible link to local levels of expenditure.
- accountability: it must allow for authorities who raise and spend money to be, and be seen to be, accountable to the people they serve.

Accountability

13. The relationship between accountability and the power to raise revenue has been relatively neglected since the Layfield Commission published its report in 1976. As Professor McLean and Dr. McMillan noted, “The ‘Layfield hypothesis’ suggests that turnout and the democratic accountability of local government are crucially affected by the structure of local finance”.¹ Research commissioned for the Balance of Funding review from Professor Colin Rallings from Plymouth University in October 2003 suggested that there was no correlation between the two.² Earlier research by Professor John Gibson of

¹ LGR B/P 13 Prof. Iain McLean & Dr. Alistair McMillan (2003) ‘New Localism New Finance p18

² BoF (11) October 2003 ‘Overview of research’ ODPM

Aston University, for the Scottish Parliament Review of Local Government Finance in 2002, reached a different conclusion.³ The Local Government Association also stated that:

“The current local government finance system, whereby local authorities receive 75% of their funding from central government through grants and redistributed business rates, creates a dependency culture, impacts on local government expenditure levels and priorities and causes disproportionate council tax rises where central government funding is insufficient.”⁴

14. The relationship between exercising a democratic right to vote and the current system of council tax is not straightforward. Guy Palmer from the New Policy Institute warned:

“My worry is that the assumption that is made is that by simply increasing the amount of money that is raised locally will result in substantial increased local accountability, whereas I think the equation is more complex than that.”⁵

Peter Kenway from the New Policy Institute stated that:

“[...] the council tax is a very regressive tax and that means that the burden falls disproportionately not on the very lowest incomes because of council tax benefit but on the group who suffer most, which are the low paid in work. This has two effects as far as accountability is concerned. The first is that I do not see how families for whom council tax may be higher than income tax, which is indeed the case for families working at £5 an hour, can ever realistically be expected to be in favour of an increase in council tax. I do not see how they can exercise a democratic choice, they are not in a position to do so. Secondly, and related to that, local authorities themselves recognise that problem and feel under pressure.”⁶

Consideration of how local revenue should be generated, and from whom, and how central and local financing should be balanced are intrinsically linked to the question of accountability, and ultimately the future of local government. **Enhancing the accountability of local authorities to the people they serve is at the heart of the balance of funding debate.**

Constitutional Change

15. The “thorough review” of the funding of local government in England represented by the Balance of Funding Review comes against a backdrop of constitutional change at every level:

- the European Union has an interest in taxation and, as never before, constrains the freedom of national governments, particularly but not exclusively on sales tax (VAT) rules and rates;

³ SP Paper 551 Session 1 (2002) Submission from Prof. John Gibson, EFG Research and Business School, University of Aston

⁴ Ev 26 HC 402-II [Local Government Association]

⁵ Q 2 [Guy Palmer, New Policy Institute]

⁶ Q 2 [Peter Kenway, New Policy Institute]

- asymmetric devolution within the four constituent parts of the United Kingdom provides models close to hand of different systems for financing local government, in the case of Scotland extending to a “tax-varying power” on the basic rate of income tax for Scottish taxpayers: a power not yet used, but of potent symbolism;
- the establishment of the Greater London Authority and the pending establishment, subject to democratic process, of one or more elected regional assemblies in England, which may seek to be more than machinery for the distribution of central funds, and to raise significant local revenue by precept adds to the complexity of existing arrangements;
- the introduction in recent years of a range of additional new measures in local government has provided at least in theory more freedoms and flexibilities, such as retention of some income, a single pot for capital, and congestion charging, matched by the requirements of Best Value and the Comprehensive Performance Assessment;
- any fundamental review of local government finance will touch on constitutional matters. Apart from Parliament, local government is the only institution in England with democratic legitimacy. The “balance of funding” between local taxation and centrally-determined sources will affect local authorities’ capacity to act autonomously and, therefore, the extent to which they can be a check or balance on the power of central Government. Thus, any decision to give local government access to a larger proportion of national tax-setting capacity, or to reduce the scope of local authority spending responsibilities, will impinge upon the existing constitutional balance. Just as government initiatives in the House of Lords, the judiciary, and regional government human rights legislation have had or will have constitutional implications, so any change to local government’s financial autonomy or responsibilities will impact on the balance of power between different elements of the State. The Balance of Funding review should be seen in this light, as should this report. Reforms that strengthen and support local democracy will enhance the constitution. The reverse is also true.

Local Authorities and People

16. Individuals and families rarely “belong” to one particular place, and few of us pay much regard to local authority boundaries in our daily lives. Particularly in urban areas, many people work in one authority and live in another. People use cultural and leisure facilities which may well be run by yet another authority. In their daily lives, people rely on environmental health, trading standards and other similar services provided by authorities other than those in which they have their home, although it is there they pay their council tax. There is much to be said for the “new localism”; but the reality of the increasing geographical mobility of individuals, and the complexity of their requirements for “local services”, cannot be overlooked.

2 What is the role and purpose of government grant?

17. The system of paying grants from central government revenues to local authorities has developed over the past 150 years, or so, in a piecemeal manner and for different reasons. Primarily, grants of various sorts have been made in recognition of the inability of the local domestic and business tax base to support a desired level of local authority spending: in other words, to use central tax revenues to support local services, particularly those which are provided as part of national policies or in accordance with statutory obligations decided at a national level. Grants have also been made as a means compensating local authorities for differences in resources arising from differences in local taxable capacity and differences in spending needs: those with the lowest tax base may well have the highest spending needs. In recent decades the grant system has become an instrument of influence or control over the level of spending by local authorities, in aggregate and in each authority, and over the relative level of spending on particular services.

18. Central government gave £40 billion in 2004-05 to local authorities in England, consisting of £27 billion in general Revenue Support Grant and £13 billion in specific grant. This represents 53% of total local government income. A further £15 billion was distributed from National Non-Domestic Rate income on a per capita basis.⁷ Therefore in sum the Government distributed a total £55 billion in 2004-05, constituting 73% of total local government income. The evidence that the Committee received on the role and purpose of central government grant focused on two areas; equalisation and control.

Equalisation

19. Equalisation of differences in local authorities need and their ability to raise money locally was the most commonly cited purpose of grant in the evidence we received. Somerset County Council's evidence argued that 'In any fair society, government grant should be used to distribute funding fairly between authorities, taking account of differences in need and available resources'.⁸ These views were echoed in much of the evidence received including the submissions from the Chartered Institute for Public Finance and Accountability (CIPFA) and the Special Interest Group of Municipal Authorities (SIGOMA):

"In CIPFA's view, the overriding objective of grant distribution should be to distribute funding fairly between authorities, taking account of differences in need and available resources."⁹

"SIGOMA believes that it is the role and purpose of Government Grant to ensure that equalisation of resources is achieved. It is extremely unlikely that full

⁷ www.local.odpm.gov.uk

⁸ Ev 43 HC 402-II [Somerset County Council]

⁹ Ev 35 HC 402-II [Chartered Institute Public Finance and Accountancy]

equalisation can be achieved without government grant or intervention in one form or another.”¹⁰

Evidence from the ODPM said that Government grant is needed to supplement council tax and income from business rates and has a crucial role in equalisation for resources and needs.¹¹

How the local government finance system achieves equalisation

20. The principle behind the system of local government finance is that it should equalise for differences in needs (costs) and resources. The formula grant system sets spending totals which, in theory, take account of the costs faced by local authorities in providing local services. If all authorities of the same type were to spend at the level of their Formula Spending Shares, they would all, in theory, be able to set the same level of council tax. Business rate income is distributed evenly across the country on a per capita basis. Revenue Support grant is then distributed in order to equalise for differences in both needs and resources.

21. The balance of funding at individual local authority level and the ratio of income raised nationally to locally inevitably varies across the country because of these grant calculations. Based on local authority budgets in 2004-05 the proportion of income raised locally varies hugely, from 13% to 69%.¹²

22. The grant system only equalises for differences in needs and resources at one point – i.e. where spending equals the Formula Spending Share (FSS) that the Government calculate for each authority. If authorities spend at the formula totals and collect the assumed proportion of council tax, then the distribution of government grant is such that band D council tax rates would be the same across the country (the Assumed National Council Tax). If a local authority budgets to spend at a level above its FSS, the whole of the extra spending falls on the local taxpayer. If a local authority budgets to spend below the level of its FSS the whole of the ‘saving’ is passed on to the local taxpayer. Council tax rates vary across the country mainly because of local spending decisions.

23. Policy Exchange commented that the current equalisation system was too precise.¹³ This view was shared by Professor Tony Travers: “[...] we in Britain have by international standards ferociously complex equalisation arrangements that seek to create much greater degrees of precision than I think many other systems do. I am not sure we need to spend quite the level of time and effort [...] achieving quite that level of precision”.¹⁴

¹⁰ Ev 40 HC 402-II [Special Interest Group Of Municipal Authorities]

¹¹ Ev 1 HC 402-II [Office of the Deputy Prime Minister]

¹² Budget returns data 2004-05, ODPM. These figures are not consistent with the usual national balance of funding ration of 75:25 because they exclude specific grants.

¹³ Ev 119 HC 402-III [Policy Exchange]

¹⁴ Q 71 [Professor Travers, London School of Economics]

Control

24. Grants give central government the power to exert control over local government: directly through ring-fencing where certain grants are separated from general (unhypothecated) income and can only be used for a specific purpose, and indirectly because it controls such a high proportion of local authority income and hence spending levels. We consider ring-fencing and passporting – how the grant is given rather than how much – in paragraphs 71 to 83 below.

What is the appropriate proportion of government grant?

25. There is no magic formula which can dictate the “right” balance between central and local funding of local authority services. Equalisation between the different needs and resources of different authorities could in theory be achieved without any central grant: the “rich” authorities would simply hand over some of their resources to the “poor” authorities. Conversely, local authorities could be 100% funded from central funds, as local agencies of central government. Nor does the problem of “gearing” discussed below suggest a particular balance: merely that the balance is a crucial factor in the way people pay for locally determined expenditure.

26. The sense that the current 75:25 central:local balance is “wrong” arises from a shared perception about the role and functions of local government, that the main responsibility for local services and local spending should lie with local authorities. From this it follows that local government should be responsible for raising much of the money it spends: and in any reasonable interpretation that means not less than half. It also follows that there should be no more controls on the levels of local taxation or local spending, nor on the end-use of central government grants, than are essential for overwhelming reasons of national policy.

Gearing

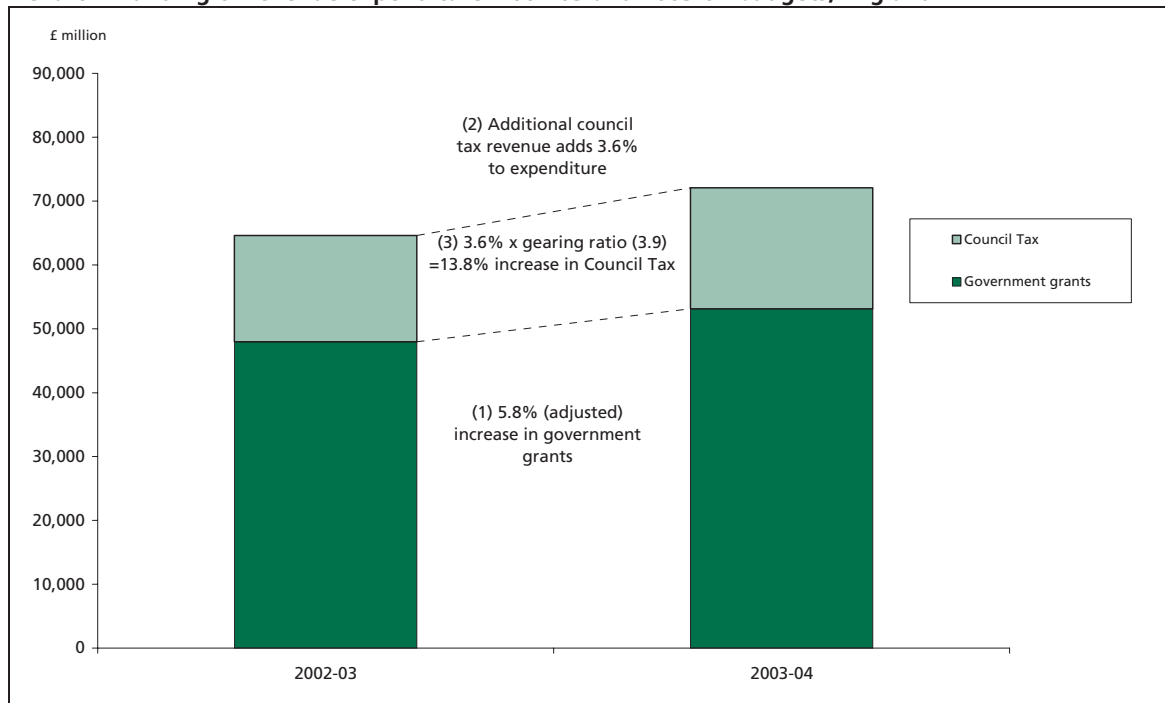
27. The “gearing” effect refers to the ratio of two different percentages: the percentage change in local authority expenditure, and the percentage change in council tax required as a result. It is the product of the balance of funding and has been cited as one of the main causes of the large increase in council tax in 2003-04 and the subsequent increased opposition to council tax.

28. The gearing ratio determines the effect an authority’s decision on its budget requirement on the percentage increase (or decrease) in its council tax bills. If a local authority financed all of its spending from council tax, a 1% increase in spending would require a 1% increase in council tax. In this case the gearing ratio is 1:1. But the typical local authority finances 25% of its spending from council tax and receives the remaining 75% of its income from central Government. Local authorities’ grant from central government is determined before authorities set their budgets and is not affected by local spending decisions. If a local authority with a formula spending share of £100 million receives £75 million from central Government, it would need to raise £25 million in council tax. If it wished to increase its spending by 1% (£1 million), it would have to increase council tax receipts by £1 million to £26 million - an increase of 4%. In this case the gearing ratio is 4:1 (the percentage increase in council tax is four times the percentage increase in spending) –

approximately the national average level. The higher the percentage of an authority's income which comes from central government, the higher the gearing ratio and, in turn, the more sensitive council tax levels are to decisions to local spending decisions.

29. The chart below illustrates the operation of gearing for England as a whole in 2003-04 when the average gearing ratio was 3.9:1.¹⁵ There are three stages: (1) The Government increased grant by 5.8% (adjusted). (2) Local authorities set budgets which needed an extra £3.3 billion in council tax to meet spending levels. This represented a 3.6% increase compared to total income in 2002-03. (3) All this has to be raised from council tax. Multiplying 3.6% by the gearing ratio of 3.9 gives the average increase in income raised from council tax bills in 2003-04, 13.8%. The actual increase in the average in Band D rate was less than this at 12.9% because an increase in dwellings meant that the council tax rises were spread out over a greater number of domestic properties.

Chart 1: Funding of revenue expenditure: 2002-03 and 2003-04 budgets, England



Problems associated with gearing

30. Mr Shostak, from the Public Services Directorate of the Treasury explained the importance of gearing for the balance of funding review:

“Gearing is inevitably one of the big issues that the Balance of Funding Review is looking at [...] Because of the gearing we know (and in a sense that was part of the rationale behind the Balance of Funding Review at the off) that there is lack of clarity in terms of issues about accountability, there is lack of transparency, there is a range of other problems in terms of its impact in terms of council tax and so on.”¹⁶

¹⁵ Audit Commission 2004 ‘Council tax increases 2003/04 Why were they so high?’

¹⁶ Q 150 [Mr Shostak, Public Services Directorate, HM Treasury]

31. Other evidence the Committee received focused on the problems associated with accountability and transparency. Mr Woods from the Association of North East Councils said:

“There is the misunderstanding of increases in council tax because of the gearing effect, the four to one effect of a 1% on expenditure, resulting in a 4% increase in tax. I think, if we could change the local government finance system, which has a more buoyant form of income coming to local government, and if we could look at changing the gearing to something below 50%, it would mean that the council tax increases should reflect more some of the changes in the council’s own expenditure and in the services. It is not going to mirror it directly, because you have not got a one-to-one relationship, but it is going to be more reflecting [...]”¹⁷

He added:

“I think gearing has an effect in terms of expenditure. One of the key considerations in forward planning is to look at the potential tax level which will be charged. [...] We have got to look at the Government grant coming in to make that assessment, but effectively it gives us a budget bottom line and then the council must look at the sorts of services it can provide for that resource. The decision the council faces then is can they live with the level of cuts in service, so the efficiency savings, which it identifies, and, if not, what are the other options for having a tax perhaps higher than the members otherwise would have wished. As you go through the budget process, you are constantly trading off the impact on services against the potential increase in the council tax.”¹⁸

32. The Leader of Somerset County Council explained that:

“At the moment the effect of gearing is such that the withdrawal of central government grant, in order just to stay still the council tax has to go up 4% for every 1% increase in spending. That is a very difficult concept to get over to members of the public; very, very difficult.”¹⁹

Mr Bilsland, the Corporate Director (Treasury) from Somerset, added:

“[...] I think 1% on council tax for the County Council is £1.8 million, 1% on the budget is £4.5 million. So obviously a 1% movement in the budget has a three fold impact on council tax, and members are very sensitive to that. That means, of course, that when you get such volatility in government grant, you get huge impacts on council tax, and it is impossible to explain that to council tax payers, why these relatively small percentage shifts at one end of the system result in quite big numbers at the other end.”²⁰

The New Local Government Network argued that:

¹⁷ Q 517 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

¹⁸ Q 543 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

¹⁹ Q 199 [Cllr Bakewell, Leader, Somerset County Council]

²⁰ Q 226 [Mr Bilsland, Corporate Director (Treasury), Somerset County Council]

“[...] in the current system the gearing is unfair, it makes it impossible for local authorities and I think the evidence to the Balance of Funding Review suggests it does not discipline local authorities to be more efficient.”²¹

33. The Local Government Association said that gearing distorts accountability.²² The Association of London Government agreed adding that it magnified errors in the funding system and was damaging to central and local government.²³ The Local Government Information Unit said that “Gearing levels clearly distorts accountability, and means that it is almost impossible for authorities to explain the relationship between spending and tax in a way that local people can fully understand”.²⁴

34. The Audit Commission produced a report on the large increases in council tax in 2003-04 which highlighted gearing as one of the two principal causes of these increases.²⁵ Evidence from the Audit Commission explained that:

“[...] the current balance of funding does not help. It is predicated on government decisions being the primary determinant of what has to be spent at a local level. And, by limiting the revenue raised locally, it:

- disguises the connection between what is spent locally and the taxes raised to fund this; and
- exaggerates the relationship between changes in spending and changes in the amount of funding that needs to be raised locally, most dramatically, through the gearing effect”²⁶

35. The ODPM has suggested that the gearing effect may not be all bad. According to a paper it submitted to the Balance of Funding Review:

“Gearing may in fact have some advantages. In particular it encourages local authorities to increase their spending power by driving down costs rather than pushing up taxes. Gearing of course cuts both ways. If local authorities are able to increase spending by less than increases in grant, then those savings will translate into much larger percentage reductions in council tax. Percentage changes may capture the headlines, but grant allocations and council tax bills are finally about hard cash amounts.”²⁷

However, the view taken in its memorandum to the Committee was somewhat different:

“It has been argued that gearing could act as a spur to efficiency by encouraging councils to look at ways of driving down costs rather than pushing up taxes. This does not appear to be the case - research done for the Balance of Funding Review

²¹ Q 5 [Mr Corry, New Local Government Network]

²² Ev 23 HC 402-II [Local Government Association]

²³ Ev 63 HC 402-II [Association of London Government]

²⁴ Ev 14 HC 402-II [Local Government Information Unit]

²⁵ Audit Commission 2004 ‘Council Tax Increases 2003-4: Why were they so high?’

²⁶ Ev 56 HC 402-II [Audit Commission]

²⁷ BoF (02) April 2003 ‘Issues for the Review’ ODPM

shows that highly geared authorities do not perform better than others. Also, it is clear that there is no obviously 'right' level of gearing, and that changing the balance of funding will only reduce gearing, not remove it.”²⁸

36. Mr Allberry, Head of Taxation, Valuation and General Policy Division at the ODPM, told the Committee:

“What the research showed, I think, was that you could not prove a correlation between different rates of gearing and different rates of efficiency. I do not think the research disproved that overall gearing does not provide a spur to efficiency in as much as more efficient councils can have more money to spend from what they raise from council tax on their services.”²⁹

He went on to explain why gearing could potentially be a good thing,

“Simply because the local authority picks up the political cost, if you like, of putting up council taxes to increase expenditure and if that increased expenditure is as a result of relative inefficiency [...] then the local authority must pass that relative inefficiency to the local authority.”³⁰

37. The Minister for Local and Regional Government outlined the different views about gearing:

“On the one side there is the view that this is an imposition which creates unreasonable pressure on the council tax because authorities have to increase council tax disproportionately because of the gearing effect. The other point of view is that this is a good financial discipline which ensures that councils think very carefully and hard.”³¹

38. The balance of funding, and so gearing ratios, vary greatly between authorities. These variations are part of a system aimed at promoting fairness, and would exist even if the balance of funding was radically altered at a national level. If it was altered towards greater local funding, the extreme cases would become less so. The balance of funding also varies between different types of authorities in similar areas. For instance in 2004/05 grant covered two-thirds of formula spending totals for shire counties, but just under half for shire districts.³²

39. Evidence from the Association of London Government (among whose members the highest gearing ratios can be found) pointed out other problems where an authority receives a very high level of government grant.

“The Association is also concerned that the current balance gives rise to a form of ‘dependency culture’ which is not beneficial to either central or local government. The high proportion of local spending currently met from central government grant

²⁸ Ev 2 HC 402-II [Office of the Deputy Prime Minister]

²⁹ Q 136 [Mr Allberry, Head of Taxation, Valuation and General Policy Division, ODPM]

³⁰ Qq 139, 140 [Mr Allberry, Head of Taxation, Valuation and General Policy Division, ODPM]

³¹ Q 796 [Mr Raynsford MP, Minister of State for Local and Regional Government]

³² www.local.odpm.gov.uk

may encourage Ministers to intervene in the detail of decisions on service delivery or seek to micro-manage local services. This runs counter to the Government's growing emphasis on local flexibilities and devolved decision-making, highlighting a potential conflict between theory and practice. Similarly, the current funding arrangements may encourage local authorities, when faced with new service pressures or changing circumstances, to demand additional financial support from central government, rather than to look for local solutions."³³

40. The Committee is convinced that gearing has a negative impact on local authorities by distorting accountability, magnifying any weaknesses in the formula grant system and making the entire system less clear. It was the major factor in the 12.9% average increase in council tax bills in 2003-04. The ODPM has confirmed that there is no evidence that gearing has any positive effects on efficiency.

Reducing the impact of gearing

41. Without directly controlling local authority spending there are two main technical ways to reduce or eliminate the effects of gearing: introducing variable grants levels and changing the balance of funding.

Variable grants

42. A system of variable grants was outlined to the Balance of Funding Review by Steve Freer from CIPFA.³⁴ Professor Bramley explained the advantages of variable grant levels to the Committee:

“The gearing problem is a product of fixed grants, it is the fact that the grants are fixed. If you are willing to go with a grant that is part way contingent on the budget decision of a local authority then you can create any relationship you like between a percentage increase in local taxation and a percentage increase in expenditure and at the same time you can equalise that for rich and poor authorities [...] That was the system from 1948 until 1989. We lived with that system for 30 or 40 years. It got a little bit too complicated in the 1980s because the DoE insisted on trying to keep recalculating grant on outturn expenditure. They could have it fixed as Stephen Freers' paper to the Balance of Funding review makes clear, on Budget day before the year starts and then it is fixed. I think it is a workable compromise and I suggest in my paper that if there is one magic bullet in all this that solves two of your problems in one go without having to introduce a new local tax, it is that. I would take that proposal very seriously.”³⁵

43. Both the Economic Secretary to the Treasury and the Minister for Local and Regional Government saw problems with this proposal:

³³ Ev 63 HC 402-II [Association of London Government]

³⁴ BoF (14) October 2003 'Balance of Funding and Gearing –exploring options for improving the current system' Steve Freer, Chief Executive, CIPFA

³⁵ Qq 55, 56 [Professor Bramley, Heriot Watt University]

“[...] the concern was, and remains the same, that this is in a sense a perverse incentive to increase your spending. If your spending increases are matched by increases in grant, the more you spend the more grant you get. This has exactly the opposite effect to gearing: this provides an incentive to spend more. This may not be in the best interests of economy and efficiency and reductions in council tax demands.”³⁶

“If you study the CIPFA paper, and certainly it will be clear when the balance of funding review reports, there are several problems with that approach. The first is that it creates a degree of uncertainty across the piece, in that the amount of additional grants which central government needs to provide would be uncertain because there would be two rounds of grant making: the first round of grant and then the top-up grant which would depend on what budget the local authorities had set. The second is that there would be an incentive within that sort of system for local authorities perhaps to set higher budgets, because of course they would have a reduced responsibility, a reduced amount of the revenue which they would have to raise locally if they set a higher budget. The third concern really plays into the points which Mr Betts made. If one had a system like that, then the only real way for government in the end to exercise the degree of control on the total which I have tried to explain from the start we do have a legitimate interest in, in terms of the Treasury, would be through some form of fairly crude capping of local authorities’ budgets. In a sense, we have been there before.”³⁷

44. While such a fix to the gearing effect is appealing, the problems of uncertainty about grant levels, possible effects on efficiency and the prospect of a return to universal budget capping are not. Moreover, it does little to improve clarity of the system. We therefore do not think variable grants are the best way to reduce the impact of the gearing effect.

Balance of Funding

45. Changing the balance of funding can reduce the impact of gearing, but not eliminate it; a system where local authorities raised all their income locally is neither practical nor desirable. National shifts in the balance will also be only part of the picture, since local rates will vary due to equalisation.

46. The Committee heard much evidence on the level to which central government grant could be reduced and still meet its purposes outlined above, and, given an additional source or sources of local income, what the resultant balance might be.

The Director of the Policy Exchange said:

“[...] Our suggestion is that all authorities and no doubt there may be two exceptions but there should not be more than that should be raising at least 50% of their expenditure through a locally determined taxation, and we can get into the question of whether council tax is really locally determined or not and many should be raising more than 75% and it should all be compatible with some broad equalisations. I look

³⁶ Q 798 [Mr Raynsford MP, Minister of State for Local and Regional Government]

³⁷ Q 676 [John Healey MP, Economic Secretary to HM Treasury]

at the fact that Westminster, which must surely on any of our measures be one of the richest areas in the country, is not raising more than a minority of its expenditure through local taxation. Surely it should be possible to take equalisation to the point where Westminster is funding 100% of its expenditure through its own raised taxes and you have still got all of your capacity to equalise people who are poorer than the average because Westminster is clearly right at the top. I think you can aim for some quite brave figures and if you do not we will end up in exactly this spiral that we have been in for 40 years or more.”³⁸

The Leader of Somerset County Council stated that:

“I would think over 50%, between 50% and 75% is reasonable to be supported locally, but, as I have said before, it has to be affordable, especially relating it to the local householders.”³⁹

The Director of the New Local Government Network told the Committee:

“[...] People argue you have got to have a very high percentage of money coming from the centre to make sure that poorer authorities do okay. As I understand it the work that has been done suggests you do need to have a certain amount of central money, but it is not nearly as much as we have at the moment. You can go quite a long way and still hit both the things you want to.”⁴⁰

Mr Woods from the Association of North East Councils told the Committee:

“[...] The research which has been done internationally has shown that for the majority of local authority levels the funding is at 50% or less, and that is the majority of arrangements. We did have roughly 50/50 prior to 1990-91, when business rates were under local control. I think, from the Association’s point of view, our evidence is that the balance of funding should be no more than 50/50, and possibly less than that, to give a greater degree of accountability [...] I would look at trying to get 50/50 in most of the regions. Our region in the North East has the lowest level of council tax of any of the regions, basically. We have the highest level of gearing as a region, so it is particularly important for us. Certainly we want to get as close to 50/50 or better, which would mean that the average should be slightly better than 50/50 in local government’s favour to achieve that.”⁴¹

The Audit Commission agreed that grant could be cut, but added that other changes would also be necessary:

“In order to achieve a change in the balance of funding, the government would also need to devolve spending and funding decisions. Government grant would need to continue to be provided to allow equalisation for different needs and resources. It

³⁸ Q 11 [Mr Boles, Director, Policy Exchange]

³⁹ Q 195 [Cllr Bakewell, Leader, Somerset County Council]

⁴⁰ Q 5 [Mr Corry, Director, New Local Government Network]

⁴¹ Qq 513, 532 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

could – and should – have a much smaller role in ensuring adequacy of local revenue, but only if there is devolution of decision making on services.”⁴²

47. The County Councils Network argued that central government grant should be cut where possible to help taxpayers identify which services are provided by local authorities. This, they argue, would encourage greater engagement and accountability and provide an incentive for efficiency.⁴³ Sir Jeremy Beecham, former Chairman of the Local Government Association, explained:

“We are however united in wanting to see a shift in the balance of funding. We believe that the present imbalance has two significant effects. First, it limits the autonomy of local government; the dependence on central government funding has that effect. Second, it creates a system which people who pay current local taxes cannot understand. They cannot understand the relationship between local expenditure decisions and the local taxes they have to pay. If they cannot understand that then our accountability to them is much diminished. We think that it is absolutely essential to move from the present imbalance of funding to a better balanced system and it is not an option to remain where we are.”⁴⁴

He added:

“We have done some modelling which suggests that the gearing could be reduced pretty substantially across the piece and there would only be a relatively small number of authorities which would be either in negative grant or at the other end in the Newham position. Any system would require a measure of equalisation.”⁴⁵

Cllr Clarke, also from the Local Government Association said:

“[...] You have talked quite rightly about equalisation, but in fact the amount of funding needed for equalisation is £16 or £17 billion, whereas grants are £40 billion. So, in effect, transferring that difference across to locally set taxes rather than nationally set taxes would be a key part of moving the balance.”⁴⁶

48. When questioned about the proportion of their budget the Treasury was willing to allow local authorities to raise, the Economic Secretary to the Treasury told the Committee:

“The short answer to that is that there is no fixed figure, there is no fixed principle, beyond the first priority to safeguard our ability to manage the economy and public finances soundly. As I said in my opening remarks, some of the arguments for seeing greater decentralisation and devolution can be entirely consistent with that. As long as they are consistent with that, then the Treasury in principle is unlikely to have a problem.”⁴⁷

⁴² Ev 56 HC 402-II [Audit Commission]

⁴³ Ev 52 HC 402-II [County Council Network]

⁴⁴ Q 803 [Sir Jeremy Beecham, Leader of Labour Group, Local Government Association]

⁴⁵ Q 828 [Sir Jeremy Beecham, Leader of Labour Group, Local Government Association]

⁴⁶ Q 826 [Cllr. Clarke, Local Government Association]

⁴⁷ Q 653 [John Healey MP, Economic Secretary to HM Treasury]

On further questioning he did indicate that some limits do exist:

“Ultimately there has to be some control of public spending, central and local and if we do not have some control of public spending, then we run severe risks with the economy, we run the risk of seeing our public finances run out of control. We have learned from bitter experience in the past the wider impact that can have and the one thing you will see and hear from the Chancellor is that above all he will not put in jeopardy the stability and the steady growth we have managed to establish in the economy over the last seven years.”⁴⁸

Total local government expenditure represents around 8% of GDP. If local authorities raised half of their expenditure locally, each percentage rise above that predicted by Government would involve expenditure of around £200 million, or 0.05% of GDP: in other words, of no real consequence to public finance.

49. The Minister for Local and Regional Government explained to the Committee that equalisation meant that the gearing effect would always be present:

“[...] the more grant is given to an individual authority in order to compensate it for the disadvantages it suffers, the greater the gearing effect. Currently, for example, a highly deprived authority such as Newham – I know it is not a SIGOMA member, but it is a very deprived area - only meets 10% of its spending from its own locally raised resources; 90% comes from government grant. Even if we were to change the balance of funding by 100% and change the gearing ratio by that amount nationally from 25:75 to 50:50, a huge change, even if we were to do that in Newham, the likely consequence, everything else being the same, would only be to change the gearing from 10:90 to 20:80 and they would still be subject to a very significant gearing effect. I am afraid to say that gearing is here to stay, if we are to have equalisation. The degree of gearing, yes, we can change and that can be altered if the balance of funding changes, but if it is our objective – and I believe it is our objective – to ensure that more deprived areas do receive compensating grant from government to help them meet their responsibilities, then there will always be a greater contribution from government sources in such areas and that is likely to have the gearing effect we have discussed.”⁴⁹

50. It is clear that Government grant can be significantly reduced from its present level and still fully meet its functions of equalisation and meeting national objectives through ring-fencing. Revenue Support Grant of £27 billion in 2004-05 is well above the level needed for equalisation. Plans to cut ring-fencing will mean a greater proportion of grant is paid through Revenue Support Grant. We conclude that the only purpose of keeping grant so much higher than necessary is to have a greater control of local authority expenditure, as a tool of macroeconomic policy. While economic stability is a legitimate goal, the relatively marginal effect of small changes in local authority expenditure within the context of the whole economy and negative impact of gearing on local authorities leads us to recommend that central Government should have control only over the grant it needs to meet the goals outlined above. Local

⁴⁸ Q 659 [John Healey MP, Economic Secretary to HM Treasury]

⁴⁹ Q 792 [Mr Raynsford MP, Minister of State for Local and Regional Government]

authorities should have control over a much greater proportion of their income, at least 50%. Our proposals for the taxes which should fall under local government control are outlined later in this report. We accept the Minister for Local and Regional Government’s argument that equalisation means that some gearing effect will always be part of the system, but the changes we propose aim to reduce this and its distorting effects. A shift in the balance of funding of the order of our recommendation would make the system significantly more acceptable and transparent.

51. On the 8th of July the Secretary of State for Education set out the Government’s five year plan for Education. The statement did not make it clear exactly how schools would be financed in the future. We would be concerned if the Government were to seek to achieve the 50:50 central/local funding balance at a national level by transferring the funding of schools to central Government control and removing the funding for schools from the Aggregate of External Finance. However, we would be wholly opposed to a proposal to ringfence the funding for schools within the Aggregate of External Finance. **The Government needs urgently to clarify its plans for funding for schools.**

Other Grant Issues

Transparency over the basis of funding decisions

52. The Committee also received evidence about the lack of transparency in the current grant system: including the way in which the level of the formula spending share is determined for each of the service blocks, the Government’s assumptions about the effects of inflation, and the effects of changes in demand for service.

Evidence from Wandsworth Borough Council argued that:

“[...] the Government should provide full transparency about its planning assumptions for inflation and growth in local authority expenditure and provide matching support by government grant”.

They also called for the creation of an independent commission to promote improvements in simplicity, certainty, timeliness, transparency, accountability and intelligibility for all kinds of government grant.⁵⁰

53. The evidence from the Audit Commission similarly called for more information about this process:

“Clarity and openness about the basis of national funding systems, and acceptance that these are not subject to short-term manipulation, are key to acceptance of outcomes from funding decisions. In our report on council tax increases in 2003/04, we suggested the government should be more transparent about the basis for funding decisions. A more radical option to increase transparency would be for an independent grants commission to allocate resources – after government had determined the total amount to be allocated”

⁵⁰ Ev 18, 20 [Wandsworth Borough Council]

They also said that accountability would be improved if there was clarity from national government about what it had allowed for in grant settlements.⁵¹

54. The so-called ‘funding crisis’ in education in 2003-04 was a particular example of a situation where, due to lack of clarity around the process, there was a heavily polarised debate between local education authorities and the Government about the generosity of the settlement. Peter Kenway, a Director of the New Policy Institute told the Committee:

“[...] The point I would stress is that I think the thing one is looking for is clarity, which is not easy to achieve, but when I think back to last year and the business around the shortage of funding to schools, who was to blame? Was it the school, was it the local authority or was it central government? We were asked this question. We are experts and I do not know the answer. The real issue is where you go if you are unhappy with an outcome.”

The Minister for School Standards was asked about this and replied:

“I think I am right in saying that there was universal agreement that the increase in funding of about £2.7 billion exceeded the increase in costs by about £250 million. I do not think there is a dispute between central and local government about that. What was the case was that there were significant changes in the cost structure, notably in relation to pensions for example which ate up £500 to £600 million of that increase. I think that the diagnosis of what happened, the narrowness of the gap between costs and investment, is not actually very strongly disputed.”⁵²

55. However, taking £250 million as the ‘real’ increase in funding (after education specific costs) gives an increase of less than 1% across the country. This is much less than the 5% ‘real’ increase (compared to general inflation) in per pupil funding across the country set out in the Department’s 2003 Annual Report.⁵³

56. Lindsay Bell, the Director of Local Government Finance at the ODPM, confirmed that inflationary pressures are taken account of:

“[...] the totals are negotiated as part of the spending reviews individual departments look at the costs that they think will fall as a result of policies to local government, and inflation and pay and things are one element of what we look at for that.”⁵⁴

The Minister for Local and Regional Government explained how this system operates:

“We do operate the new burdens principle. I police it as best I can. I am well supported by the Treasury who support it. Our objective is to ensure that if additional burdens are placed on local government then an appropriate financial allowance is made in the spending review and that has been very much part of the work going on in the current spending review. This is something which involves the Local Government Association. We do involve them in it and I believe that is an

⁵¹ Ev 55, 57 HC 402-II [Audit Commission]

⁵² Q 728 [Mr Miliband MP, Minister of State for School Standards]

⁵³ DfES Departmental Report 2003, Table 3.5

⁵⁴ Q 112 [Ms Bell, Director of Local Government Finance, ODPM]

entirely appropriate and constructive way of going about it. I would not like to say whether we could be more transparent than that.”⁵⁵

He went on to say:

“I could not possibly say it is adequately publicly available, because a lot of it is very arcane and involves lengthy and detailed discussions between technical experts and central and local government about the impact of particular new burdens. A lot of that would be very, very complex indeed to try to get into the public domain.”⁵⁶

57. Information about the cost pressures faced by local authorities in providing their local service would add an element of transparency to system of local government finance. This information is used at present within government to make vitally important decisions about local funding. It is not acceptable that the Minister for Local and Regional Government gives himself the role of ‘policeman’ over his own decisions. At present the complexity of the system and lack of this type of information means that it is perfectly possible for local authorities and central Government to make statements about the generosity of annual settlements that are diametrically opposed, without the public being about to judge which is more accurate. We are not suggesting that this lack of information always hides reductions in the real level of funding; only that simply comparing funding changes to general inflation is inadequate. In 2002-03 employment costs made up 60% of local authority service expenditure.⁵⁷ Average earnings are currently running around two percentage points above the Retail Price Index and public sector earnings are increasing faster than in the private sector.⁵⁸ These factors together mean that it is reasonable to assume that the costs of providing local services are increasing faster than the Retail Price Index, and make comparisons to general inflation unreliable or misleading.

58. Information of the sort we seek is only likely to be the starting point for debate about cost pressures between local and central Government; but it would be a better informed and more productive debate than at present. It would give council tax payers a better idea of why their bills have changed and who is responsible. **We recommend that the ODPM publishes details of the estimated cost pressures for each local authority service. We accept that much of the detail is likely to be technical, but summary information could spell out at a national level what funding had increased by, what service-specific inflation was predicted to be, what assumptions about efficiency improvements have been made and hence what remains for actual service improvements.**

Three year budgets

59. On 3 May 2004 the Prime Minister made a speech to the National Association of Head Teachers announcing the Government’s plan to introduce three year academic year budgets for schools:

⁵⁵ Q 789 [Mr Raynsford MP, Minister of State for Local and Regional Government]

⁵⁶ Q 790 [Mr Raynsford MP, Minister of State for Local and Regional Government]

⁵⁷ www.local.odpm.gov.uk

⁵⁸ *Monthly digest of statistics May 2004*, National Statistics

“[...] One of the greatest difficulties for schools, as the last two years has shown, is to plan ahead not knowing year on year what the school budget will be. Subject of course to the proper financial systems and accountability, and as a result of this year's spending review settlement for education, I can tell you today that it is our intention, in the education department's future programme in July, to set out a move to three yearly, not yearly, budgets for schools, with assured funding to underpin them. And we would like these budgets to be aligned to the school year, not the financial year, reflecting the way you do business as school managers.”⁵⁹

On 8 July 2004 the Secretary of State for Education and Skills announced to the House his plans to introduce “guaranteed three-year budgets for every school from 2006” as part of the Government's five-year strategy.⁶⁰ The Minister for School Standards told the Committee that the benefits of this would be “huge”:

“When head teachers say it is very difficult for them to plan with confidence on the basis of year on year changes to budgets, they are absolutely right. So the benefits are obvious, the benefits to local government as well as to central government are obvious. We are now working with colleagues in government and around the school system, including local government, to put it into practice and we are determined to do so. The current spending review runs up to 2005-06 and we are working hard on an implementation timetable which meets the need, but is also practical and prudent.”⁶¹

60. The Minister for Local and Regional Government said:

“This was a general wish and it is not limited either to schools or to local government, to try to move towards greater financial certainty. The institution of the spending review programme with three-year indications of funding is part of that process.”⁶²

He also listed some of the potential problems:

“[...] there are problems, particularly in areas where there are fluctuations in either pupil numbers or in other demographic trends which impact on the cost of delivering local authority service. If you lock people in to particular levels of funding for a three-year period, without the scope to vary to take account of significant rises in cost pressures, driven by demographics which are entirely outside the authority's or the school's control, you could be creating a different problem. There are issues there which need to be addressed, but the concept and the principle of a greater degree of certainty, so that people can plan ahead, whether it is at the school level or the local authority level, must be right.”⁶³

⁵⁹ www.number-10.gov.uk/output/pages5730.asp

⁶⁰ HC Deb, 8 July 2004, cols 1011 ff

⁶¹ Q 736 [Mr Miliband MP, Minister of State for School Standards]

⁶² Q 776 [Mr Raynsford MP, Minister of State for Local and Regional Government]

⁶³ Q 777 [Mr Raynsford MP, Minister of State for Local and Regional Government]

61. There was also support from the Local Government Association for this proposal. Sir Jeremy Beecham said he welcomed the proposal so long as it was extended to the rest of local government. He added “There will need to be an element of flexibility; a minimum guarantee, as it were, should be available to councils and within that context it would be feasible to plan for schools and other services.”⁶⁴

62. There would be obvious advantage in a three year rolling programme of grants for local authorities. It would enable authorities to publish at least indicative budgets for the same period, and associated local tax rates. The Spending Review system in central Government already provides this element of certainty and predictability. A similar scheme already operates in Scotland. We would in principle like to see the practice of three year assured funding proposed for school budgets extended to all local service funding. If this is not done it is important that the ODPM and Dfes explain the relationship between education and other local authority spending and whether all education funding is effectively going to be ringfenced. We recommend that ODPM inquire into the lessons to be learned from Scotland, and investigate appropriate safeguards for its introduction in England.

⁶⁴ Q 847 [Sir Jeremy Beecham, Leader of the Labour Group, Local Government Association]

3 The Role of Central Government

Capping

63. Central government has the power to restrict the revenue raising capacity of local government, often referred to as capping. In the 1980's this power was used to restrict the size of local authority budgets. In the 1990s this developed into crude and universal capping of all local authorities. The current Government did not use its power to cap the budgets of individual local authorities until this year. The reintroduction of selective capping generated much criticism from local authorities who felt unfairly treated, especially those who had been rated as Excellent authorities in the Comprehensive Performance Assessment (CPA), and were under the impression that they would not face the imposition of a cap. On 8 July 2004 the Minister for Local and Regional Government announced that the budgets of six authorities would be capped for 2004-05, and that eight authorities would have notional budgets imposed, against which future increases would be measured for capping purposes.⁶⁵ In this section, we examine the implications of capping for council tax and the balance of funding, rather than the specific circumstances of this year's events: in particular the impact of capping on local authority spending plans, and the subsequent impact on local accountability.

64. Some question whether central government should have the power to cap local authority council tax increases at all, seeing the level of local taxation as a decision for the local electorate. The Local Government Information Unit associated the use of capping with diminishing local accountability. In their written evidence they argued that:

“We believe that it should be left to local people to decide whether their council has acted properly in setting the local tax rate. Capping budgets denies local accountability. There is not a cogent economic case for the central control of local taxation. Clearly, any government would want to control its own direct input to local authority spending and council tax levels have implications for council tax benefit expenditure, but the question should be how far does central government need to control local authority taxation in order to ensure macro economic stability and balance within the economy.”⁶⁶

Professor Travers also argued that capping damages local accountability. He stated that:

“I do not think capping is an appropriate mechanism, in part because the margin on local government spending in any year is very small in relation to the whole economy and therefore I think it is unlikely to unbalance the economy in any one year, but in terms of local accountability I think that having national government intervening to set local taxes is very damaging to the notion of accountability at the local level.”⁶⁷

⁶⁵ HC Deb, 8 July 2004, cols 42-43 WS

⁶⁶ Ev 17 HC 402-II [Local Government Information Unit]

⁶⁷ Q 51 [Professor Travers, London School of Economics]

65. The Special Interest Group of Municipal Authorities (SIGOMA) concurred with the arguments developed by the Local Government Information Unit and Professor Travers. They argued that capping restricts the ability of local authorities to have a real influence on local policy-making, and that the principle of capping was “fundamentally in conflict with the accountability of local authorities.”⁶⁸ In their evidence to the Committee the Audit Commission also highlighted the detrimental effect on local accountability of capping:

“If councils are properly accountable to local citizens for the spending and taxation decisions they make, there should not be a need for centrally imposed ceilings on spending and/or taxation through capping or similar mechanisms [...] transparency at a national and local level, stability and predictability of funding mechanisms, and reduced micro-meddling in local spending decisions would all lead to increased accountability. Capping may be thought necessary when other forms of accountability are missing but is a poor substitute for real local accountability.”⁶⁹

66. From a local authority perspective capping was interpreted as a general and indiscriminate punishment. Cllr Bakewell, the Leader of Somerset County Council, argued, “I think capping is a pretty blunt tool. It does not really relate to the local population. If councils raise council tax too high the local electorate will pretty soon let them know”.⁷⁰ She further argued that, “Councils still have priorities. They still have the people there which they have to provide the services for. I think it is better for councils to relate to their electorate and to their residents and for them to decide what is an adequate level”.⁷¹ When asked who it was that felt the pain of capping Cllr Bakewell replied:

“The pain is felt by the public because of the rebilling costs, because that, as I said before, is dead money, you do not get anything for the cost of rebilling, and that obviously goes on to the council tax, or the service cuts which support that [...]”⁷²

67. Paul Woods from the Association of North East Councils disagreed: “[...] history has shown that there is a need to have a reserve power of capping. I think there needs to be that pressure.”⁷³ In his evidence to the Committee John Healey MP, Economic Secretary to the Treasury, defended the Government’s use of capping:

“[...] there has to be some control of public spending, central and local and if we do not have some control of public spending, then we run severe risks with the economy, we run the risk of seeing our public finances run out of control.”⁷⁴

The Local Government Association acknowledged the Government’s reasons for capping:

“The LGA recognises that the Government does have a legitimate interest in macroeconomic stability and that local government expenditure represents around

⁶⁸ Ev 42 HC 402-II [Special Interest Group Of Municipal Authorities]

⁶⁹ Ev 58-9 HC 402-II [Audit Commission]

⁷⁰ Q 207 [Cllr Bakewell, Leader, Somerset County Council]

⁷¹ Q 208 [Cllr Bakewell, Leader, Somerset County Council]

⁷² Q 215 [Cllr Bakewell, Leader, Somerset County Council]

⁷³ Q 542 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

⁷⁴ Q 659 [John Healey MP, Economic Secretary to HM Treasury]

25% of all public expenditure. It believes in a partnership approach to ensuring this stability, for example, through discussions within the framework of the Central Local Partnership.⁷⁵

68. A possible rise in local taxation could be considered by the electorate in a referendum. This type of local consultation has been piloted by Somerset County Council. In their written evidence to this inquiry they detailed the results of a comprehensive budget consultation exercise, carried out using questionnaires and focus groups, which allowed the local authority to gauge local feeling on different levels of council tax increases.⁷⁶

69. The Local Government Association argued that there could be other solutions to the balance of funding problem that would remove the need for central government to cap local government.

“Rather than placing a ceiling on local government expenditure as a means of controlling council tax rises, the LGA would like to see local authorities provided with adequate revenue raising capacity. Measures such as reforming the council tax, relocalising business rates, introducing a form of local income tax and other taxes and charges could shift the balance of funding, and give local authorities more autonomy in spending decisions, without unfairly burdening council tax payers.”⁷⁷

The feasibility of alternative means of raising local revenue will be discussed further in a later chapter.

70. The Committee acknowledges that the Government wants to ensure that its national policy agenda is followed at local government level, and in particular its macro-economic policies, although we have expressed our conviction that variations in local government expenditure have little macro-economic effect. We believe that this would be more constructively achieved through discussions within the Central-Local Partnership than by capping. It is much more appropriate for local authorities to be held to account for local decisions, including the level of local taxation, through the ballot box. If the Government insist on retaining capping, capping should be selective, rather than general and selected local authorities should be given a year in which to meet the requirements.

Passporting and Ring-fencing

71. “Ring-fencing” is the term used for “specific formula grants” designed to fund particular services or initiatives that are a national priority: for example, a mental health grant which helps to secure a certain level of provision for mental health services in each authority with social services responsibilities. “Passporting” is a recent mechanism used by the Department for Education and Skills to ensure that increases in the Formula Funding Share for schools leads to pound-for-pound increases in school budgets. It leaves little

⁷⁵ Ev 25 HC 402-II [Local Government Association]

⁷⁶ Ev 46 HC 402-II [Somerset County Council]

⁷⁷ Ev 25 HC 402-II [Local Government Association]

room for local discretion; the Minister for School Standards told us that 95% of local authorities passport the recommended levels of funding to schools.⁷⁸

72. The Minister for Local and Regional Government justified the use of ring-fencing:

“When you are introducing changed arrangements on highly sensitive services such as supporting people, involving very considerable flows of revenue which are there to help some of the most vulnerable people in our society, if there were no ring-fence at all when that was introduced, real fears were expressed by many of those responsible for those services that this could have a catastrophic consequence on the recipients of the service, if an individual local authority chose not to use the resource for that purpose at all.”⁷⁹

The Minister for School Standards told us:

“The passporting affirmation by the whole of government reflects the commitment which the whole of government shares to education. In addition, it is significant that local government increasingly sees education not as separate from its ambitions for economic and social renewal, but actually as central to them.”⁸⁰

73. The majority of our witnesses could see little or no difference between ring-fencing and passporting, and identified the same drawbacks in both funding mechanisms. Yet the Government has argued that there is a difference between ring-fencing and passporting. In his evidence to the Committee the Minister for School Standards stated that “The passporting is a separate issue and the passporting debate reflects the priority the Government believes education should have in national investment”.⁸¹ He further argued that the difference between ring-fencing and passporting was in the realm of choice. For example:

“Wandsworth spends 93% of the EFSS on education and the top spending education authority, which I think is Bristol though I stand to be corrected, spends 110% of EFSS. So there is actually a wide variation in education spending by local government.”⁸²

We share the view of most of those involved in local government that the difference is indeed largely semantic.

74. Ring-fencing and passporting are said to undermine local accountability, local diversity and local discretion, in an attempt to impose national policies and priorities at local level. The County Council Network (CCN) for example told us:

“[...] the requirement to passport education funding means the budget provision for education is, in effect, dictated by central government and not by local need. This also has the added disadvantage of diverting focus from all local authority services to

⁷⁸ Q 732 [Mr Miliband MP, Minister of State for School Standards]

⁷⁹ Q 782 [Mr Raynsford MP, Minister of State for Local and Regional Government]

⁸⁰ Q 718 [Mr Miliband MP, Minister of State for School Standards]

⁸¹ Q 716 [Mr Miliband MP, Minister of State for School Standards]

⁸² Q 721 [Mr Miliband MP, Minister of State for School Standards]

those which may directly be affected by the resulting level of council tax, outside the protection of the passporting system. The CCN believes that the requirement to passport funds to education must be removed from the FSS system and local authorities should be given the freedom and flexibility to decide on the level of local education budgets based on local service needs.”⁸³

The Local Government Information Unit argued:

“Ring-fencing and passporting, combined with complex and fragmented funding streams for area based initiatives with various regeneration aims, undermine local, strategic decision making.”⁸⁴

Professor Travers added that perhaps our understanding of local variation was unduly negative:

“We all hear a great deal about the evils of the postcode lottery and my concern about that is if the postcode lottery is always seen as such an evil that there is not much room for local government. If in a sense every service must be the same everywhere then there is not much room for local discretion.”⁸⁵

And that:

“I think in the long term the what you might call "he who pays the piper calls the tune" argument where national government raises a large proportion of all taxes and then redistributes part of it through grants to local authorities leaving local authorities raising only a small proportion of their income from local taxes is likely to lead to national government feeling that it is its money that is being spent and therefore involving itself through specific grants, passporting, and a range of controls and interventions which do amount to eroding local autonomy and in that indirect way feeding through into a relationship between the proportion of money raised locally through local taxation and the amount of central involvement [...].”⁸⁶

Nicholas Boles from the Policy Exchange summed it up:

“At the moment we are trying to pretend that we are giving the money to local government but then we are actually telling them how to spend it and that is nuts.”⁸⁷

75. The Leader of Somerset County Council highlighted the decision that many authorities face when asked to passport central government money through to schools is one without real choice:

“Whilst I support putting money into education and have always done that and would always passport through to schools wherever possible, the increasing trend

⁸³ Ev 54 HC 402-II [County Council Network]

⁸⁴ Ev 17 HC 402-II [Local Government Information Unit]

⁸⁵ Q 57 [Professor Travers, London School of Economics]

⁸⁶ Q 55 [Professor Travers, London School of Economics]

⁸⁷ Q 18 [Mr Boles, Director, Policy Exchange]

towards ring-fencing is not particularly helpful. Is local government there just to deliver National Government's priorities?"⁸⁸

76. A further effect of the degree of dictation from the centre of local service level, and expenditure is an inappropriate concentration on those areas at the expense of others, a tendency magnified by the associated regime of targets and inspections. It can also lead to a sense in local Government that areas funded centrally are the concern of central government.

Cllr Gibson from the North East Regional Assembly stated:

“As resources get scarcer and scarcer, if the ring-fencing continues then the result of that will be that the services of which people approve - culture, art, theatres, street-cleansing, those sorts of issues over which we have control - will start to disappear and so local government will become less and less popular.”⁸⁹

Dan Corry told us:

“In education I have some worries that if you directly fund it from Whitehall local government will say, ‘We are not going to bother getting involved in education,’ and I think that would be a big mistake because I think a lot of the difficult issues of underperforming children and schools and so on need the local authority fully involved.”⁹⁰

77. In unitary authorities, education represents such a substantial slice of expenditure that passporting can have a devastating impact on local autonomy, leaving only a small proportion of the budget for locally determined priorities. Paul Woods from the Association of North East Councils noted:

“In most local authorities who are unitary authorities education will account for perhaps 40 to 50% of a budget, a very substantive part. The next significant element is social services.”⁹¹

78. It must however be recognised that central government will always wish to have influence or control over some of the funds it passed to local authorities, and that ring-fencing may in some circumstances be appropriate. The Leader of Somerset County Council highlighted the dilemma facing the Department for Education and Skills when striving to set standards:

“[...] education is not necessarily the priority of quite a large section of our population. I personally find that quite sad, that some elderly people, a large proportion of elderly people, are not prepared to put money into education; they perceive that education is adequately funded.”⁹²

⁸⁸ Q 196 [Cllr Bakewell, Leader, Somerset County Council]

⁸⁹ Q 537 [Cllr Gibson, Leader, Stockton-on-Tees Borough Council, and Chairman, North East Regional Assembly, and Chairman, Association of North East Councils]

⁹⁰ Q 19 [Mr Corry, Director, New Local Government Network]

⁹¹ Q 539 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

⁹² Q 206 [Cllr Bakewell, Leader, Somerset County Council]

In their written evidence Somerset County Council accepted that they felt that there were some circumstances whereby ring-fencing might be acceptable. For example,

“The use of specific grants, passporting and hypothecation are particularly problematic issues and the County Council view is that these should only be used when:

- the local authority is administering mandatory grants
- there is a desire to encourage experimentation or a new function is being introduced
- formula grant distribution would be patently unfair”⁹³

79. The Minister for School Standards developed the Government’s argument for the need to ring-fence portions of central Government grant when he commented that, “I think those three reasons, tackling inequality, promoting innovation, spreading good practice, are three good reasons why one can have ring-fenced grants”.⁹⁴ The Minister for Local and Regional Government commented:

“I think of services such as Sure Start, where huge impacts have been achieved at a local level in terms of services for very vulnerable people in deprived communities and that benefit is something which also has to be borne in mind when we think about the consequences of ring-fenced funding in the years since 1997.”⁹⁵

An official from the ODPM told us that there was a recognised need for ring-fencing:

“[...] for example to embed something new that you want done, that everyone wants done, but the Government is also clear that its overall policy is to restrict ring-fencing, only use it where necessary and keep it constantly under review so that as soon as we do not need it we remove it.”⁹⁶

80. The current level of ring-fencing and passporting is however accepted as being neither efficient nor effective. The Audit Commission told us:

“Ring-fencing of grants and other targeting of funds—including the requirement to passport funds to education—do not promote efficient and effective resource allocation at a local level.”⁹⁷

and in their report ‘Council Tax increases 2003/04 Why were they so high?’ the Audit Commission recommended that Government should, “[...] reduce direct controls over councils through targets and continue to reduce ring-fencing of grants [...]”.⁹⁸ The Government too has acknowledged that ring-fencing can have a detrimental effect on the

⁹³ Ev 43 HC 402-II [Somerset County Council]

⁹⁴ Q 707 [Mr Miliband MP, Minister of State for School Standards]

⁹⁵ Q 783 [Mr Raynsford MP, Minister of State for Local and Regional Government]

⁹⁶ Q 118 [Ms Bell, Director of Local Government Finance, Office of the Deputy Prime Minister]

⁹⁷ Ev 55 HC 402-II [Audit Commission]

⁹⁸ Audit Commission 2004 ‘Council tax increases 2003/04 Why were they so high?’ p3

implementation of policy. The Minister for Local and Regional Government stated in his evidence to the Committee:

“It does have the adverse effect the Audit Commission have expressed and we have been seeking, as you rightly highlighted, to reduce it and we have been reasonably successful in getting the trend downwards and we intend to go on.”⁹⁹

For the year 2004/5 the total ring-fenced grant is 23.4%,¹⁰⁰ of central government grant. By next year the Government aims to reduce the proportion of grant that is ring-fenced to 10% of central government grant.¹⁰¹ The announcement of three-year budgets for every school from 2006 referred to at paragraph 59 above also made plain that these grants would be “guaranteed by national government and *delivered through* local authorities”.¹⁰² In response to questioning, the Secretary of State for Education and Skills told the House, “In future, such allocations will be ring-fenced. This is a significant issue for local government, as my hon. Friend’s question suggests. Those authorities will be able to top up education funding by choice, if they wish”.¹⁰³ It is hard to fathom how the introduction of a completely ring-fenced schools grant, pre-allocated by central Government to individual schools, can sit with a target of reducing the proportion of central Government grant to local authorities which is ring-fenced.

81. Despite the 8 July announcement by the Secretary of State for Education and Skills, we recommend that the Government ensure that its target of reducing a ring-fenced grant to 10% of overall grant in 2005/6 is met. The Government should provide an annual statement of its performance and intentions with regard to ring-fencing and passporting in future years.

82. We recommend that the Government reconsider the use of ring-fencing and passporting, and acknowledge the potential role of the local electorate in terms of setting the local agenda. Mechanisms such as the central-local partnership can be used to ensure minimum standards. However, local authorities should be given the freedom to implement local priorities, and be judged for these decisions by the local electorate.

83. The Government should allow local authorities to make spending decisions, and take the consequences for these decisions at the ballot box. If Central Government wishes directly to control education funding it should consider funding education directly. If it believes that education is an important and integral part of local government services and funding it should set minimum standards and then allow local discretion. The present situation lacks clarity and transparency as to where responsibility lies.

⁹⁹ Q 782 [Mr Raynsford MP, Minister of State for Local and Regional Government]

¹⁰⁰ ODPM Local Government Finance Settlement table 1 <http://www.local.odpm.gov.uk/finance/0405/keytabs/keytab1.pdf>

¹⁰¹ Q 782 [Mr Raynsford MP, Minister of State for Local and Regional Government]

¹⁰² HC Deb, 8 July 2004, col 1012: italics added

¹⁰³ HC Deb, 8 July 2004, col 1025

Best Value and CPA

84. The Best Value and Comprehensive Performance Assessment processes were designed to improve performance at local government level. Best Value encourages local authorities to provide services in the most efficient and economically effective way, with an additional focus on what is best for the community. The Comprehensive Performance Assessment (CPA) judges to what extent local authorities are achieving Best Value in a wide range of services and audits the performance of local authorities on this basis. The Audit Commission carries out inspections, and marks authorities depending on their performance. Those authorities who achieve the highest grades are given more freedom from future inspection. Some local authorities interpret external inspection as an unnecessary burden on their resources and a characteristic of the controlling nature of central government.

85. The Committee has received evidence from various groups who felt that the role of inspection, CPA and Best Value had had a negative impact on their authority. Cllr Gibson stated that, “I think there are too many inspections, especially in education and social services”.¹⁰⁴

86. Professor Travers alluded to the potential unintended consequences of targets and inspections such as the CPA,

“I do not know of any research that would suggest that the possibility that being an excellent authority would lead to freedoms is what makes them try to be excellent. I think they want to be excellent because they want to be excellent and all authorities want to get as far as they can up the league, as it were.”¹⁰⁵

87. The Leader of Somerset County Council identified that when authorities were poorly branded they were burdened with even more inspections that diverted officer focus and resources away from core services.

“It is the case that when authorities are rated as weak or poor there are more inspections for which authorities have to pay, and it is a bit of a bone of contention that you have to find money to pay for the inspectors, which I would not say we could do without, it is right that we should be inspected, but the level of inspection is very, very onerous.”¹⁰⁶

88. Those authorities that are branded more highly have less problems with this, although as Paul Woods from the Association of North East Councils noted:

“I am from a good authority [...] The amount of inspection from the Audit Commission has started to reduce noticeably. That is starting to help. I think it could

¹⁰⁴ Q 54 [Cllr Gibson, Leader, Stockton-on-Tees Borough Council, and Chairman, North East Regional Assembly, and Chairman, Association of North East Councils]

¹⁰⁵ Q 58 [Professor Travers, London School of Economics]

¹⁰⁶ Q 190 Cllr Bakewell, leader, Somerset County Council]

be reduced still further and it will help further, because, you are right, capacity is a key issue.”¹⁰⁷

89. Paul Woods argued that the role of inspections was initially useful for local authorities,

“My own experience is that the CPA does consume quite a significant amount of officer time. However, we felt that the process was certainly worthwhile because it helped our self-assessment of the quality level in services and it stimulated us to look at certain areas where we want to improve ourselves.”¹⁰⁸

90. However, as Chris Bilsland from Somerset County Council identified, “We have never seen an Ofsted report, we have never seen an SSI report that did not encourage us to spend more money. They are always routing for more with the backlash of consequences”.¹⁰⁹

91. Professor Bramley in his evidence to the Committee noted,

“I think the Audit Commission has done valuable work over the years in looking at value for money in particular services and highlighting problems and keeping a general watching brief on things, but to run the whole system around a CPA process seems to me to be very centralist and at the end of the day it is still quite a subjective judgemental process.”¹¹⁰

92. The Committee recommends that the Government dramatically reduce their inspection regimes on local authorities. In particular the Government should consider the concerns of smaller local authorities and ensure their inspection regimes are proportionate to their size and responsibility. The Government should continue to free “good” and “excellent” authorities from some inspection and plan-making regimes and should ensure the inspection framework is appropriate to the improvement needed in “poor” and “weak” councils.

¹⁰⁷ Q 541 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

¹⁰⁸ Q 540 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

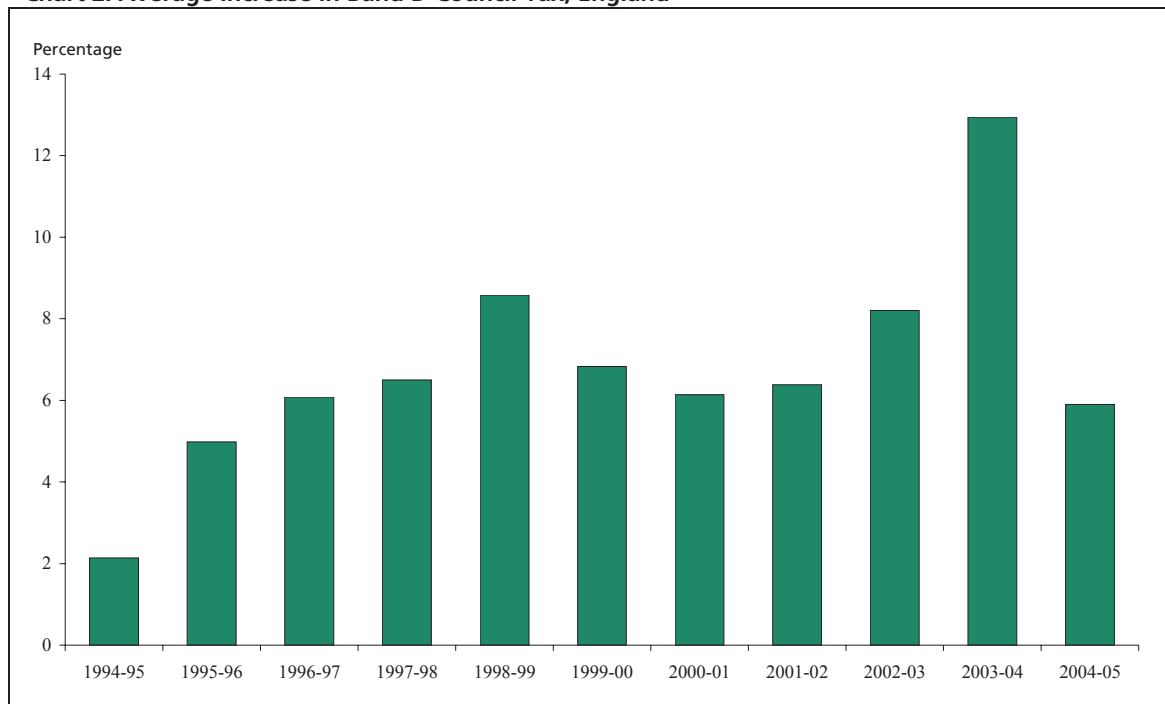
¹⁰⁹ Q 189 [Mr Bilsland, Corporate Director (Treasury), Somerset County Council]

¹¹⁰ Q 47 [Professor Bramley, Heriot Watt University]

4 Council Tax - Is it a viable and adequate source of revenue

93. The council tax is a local tax set by individual local authorities to help pay for local services. There is normally one bill per dwelling and the charge is based on the relative value of property. The council tax was introduced in England and Wales in April 1993 and replaced the community charge (or “poll tax”), which had in turn replaced domestic rates in April 1990. According to the ODPM, the tax “has been widely accepted until recently”.¹¹¹ Calls for its reform or abolition grew, however, following very large increases in council tax bills in 2003-04. The following chart shows the average percentage increase in band D bills – the average council tax band – since its introduction. In most years average bills have increased by around 6%; the average increase in 2003-04 was more than double that, at 12.9%.

Chart 2: Average Increase in Band D Council Tax, England



Source: www.local.odpm.gov.uk

Advantages of council tax

94. The Committee received much evidence about the advantages of council tax as a form of local taxation. The Audit Commission pointed out that it was simple to calculate; transparent; easy to collect; and as the principle form of property tax that it widened the overall national tax base.¹¹² The Local Government Information Unit added that it was hard to avoid and provided a stable and predictable income for local authorities.¹¹³ Many of the organisations submitting evidence to the inquiry reiterated these points and pointed

¹¹¹ Ev 3 HC 402-II [Office of the Deputy Prime Minister]

¹¹² Ev 58 HC 402-II [Audit Commission]

¹¹³ Ev 16 HC 402-II [Local Government Information Unit]

out that the council tax had also relatively low collection costs, high yield¹¹⁴ and a secure asset base.¹¹⁵ These advantages are common to most property taxes which may explain why property taxes are such a popular form of local taxation in other countries.

95. Professor Bramley told the Committee:

“[...] I think taxes on fixed property are [...] appropriate for assignment to local government level. They are the first choice for a local tax for lots of reasons that you can easily see. I think broadly the experience of the council tax is that it has been successful, it has worked well compared with some of the predecessors and alternatives that have been considered, it has been less controversial, more workable”

The Economic Secretary to the Treasury told the Committee that:

“As the Chancellor has made clear, he sees a property tax as a fair form of tax as part of the overall tax system and the council tax is the principal form of property tax which we have in this country.”¹¹⁶

96. Many of the organisations that highlighted the advantages of council tax were as keen to point out that it needed reform and to suggest changes. The Local Government Information Unit said that at present it was unsustainable and needed radical reform before it could be said to be sustainable.¹¹⁷ The New Policy Institute argued that there would be similar dissatisfaction with any other tax that had increased by the same amount.¹¹⁸ The Audit Commission said that it needed reform to increase its viability.¹¹⁹ Reform of the council tax is considered later in more detail.

Disadvantages of council tax

97. Critics of the council tax point out that it is regressive (council tax liability as a proportion of income reduces at higher income levels), it is not a buoyant tax (revenues do not automatically increase with economic growth), it is inadequate on its own and that council tax benefit provides an insufficient safety net. Those organisations with a more positive view of council tax tended to say that its problems have been magnified by the amount of income that it has to produce. The Association of London Government, for example, said that it has been called on to bear more than it can effectively sustain and recent large increases have highlighted its weaknesses.¹²⁰

98. Despite these problems most of those who raised these criticisms want council tax, or some form of property tax at the very least, retained. Only a small minority of the evidence the Committee received called for the complete abolition of the council tax. This echoes the findings of the Balance of Funding Review’s public consultation:

¹¹⁴ Ev 24 HC 402-II [Local Government Association]

¹¹⁵ Ev 120 HC 402-III [Policy Exchange]

¹¹⁶ Q 673 [John Healey MP, Economic Secretary to HM Treasury]

¹¹⁷ Ev 16 HC 402-II [Local Government Information Unit]

¹¹⁸ Ev 38 HC 402-II [New Policy Institute]

¹¹⁹ Ev 58 HC 402-II [Audit Commission]

¹²⁰ Ev 63 HC 402-II [Association of London Government]

“Many responses to the Review's public consultation last year said that there were serious problems with council tax. But most of them suggested that council tax could be reformed rather than abolished. This is a tax that has been widely accepted until recently. From an international perspective, almost all countries have a local tax on domestic property. It has advantages - for example, it is relatively easy to understand and to collect.”¹²¹

99. Among those who did want council tax abolished was the Leader of Somerset County Council who told the Committee:

“All the surveys that we have done out in the market place and door to door have come in overwhelmingly in favour of the abolition of council tax and the introduction of a local income tax. People can see that if they have got a low income then they pay very little, and if they have got a high income then they pay more. I think that is predicated towards people's ability to pay, and I think that is fair and people can understand that.”¹²²

Mr Webb, Chairman of the Surrey Tax Action Group said the Balance of Funding Review:

“[...] should conclude that council tax should be abolished, that the raising of revenue should be separated from the accounting for spending, that local authorities should be financed from central taxes.”¹²³

Ms Melsom from the “IsItFair” Campaign said:

“[...] we believe that the fairest and simplest way for each individual to contribute towards the cost of public services is to use the existing income tax and VAT systems that are established and understood and accepted.”¹²⁴

100. The Committee believes that the council tax has a number of advantages as a local tax, particularly its ease of collection, transparency and the fact that it is difficult to avoid. Its disadvantages are significant, although some could be overcome or reduced with reform. Many of its failings, especially its regressive nature, are magnified by the increased burden it has to bear. We are not convinced that council tax on its own is an adequate source of local income for local authorities. Nor, however, are we convinced that abolishing council tax – with all the associated disruption – would result in a better outcome for local authorities or local taxpayers. **We recommend that council tax should be retained, provided it and council tax benefit are reformed in line with our other recommendations in this report in order to address the shortcomings of the current arrangements. In addition, local authorities need greater freedom in the use of their other sources of revenue to ensure that council tax payers are not exposed as at present to large increases in annual bills.**

¹²¹ Ev 3 HC 402-II [Office of the Deputy Prime Minister]

¹²² Q 231 [Cllr Bakewell, Leader, Somerset County Council]

¹²³ Q 340 [Mr Webb, Surrey Tax Action Group]

¹²⁴ Q 339 [Ms Melsom, IsItFair Campaign]

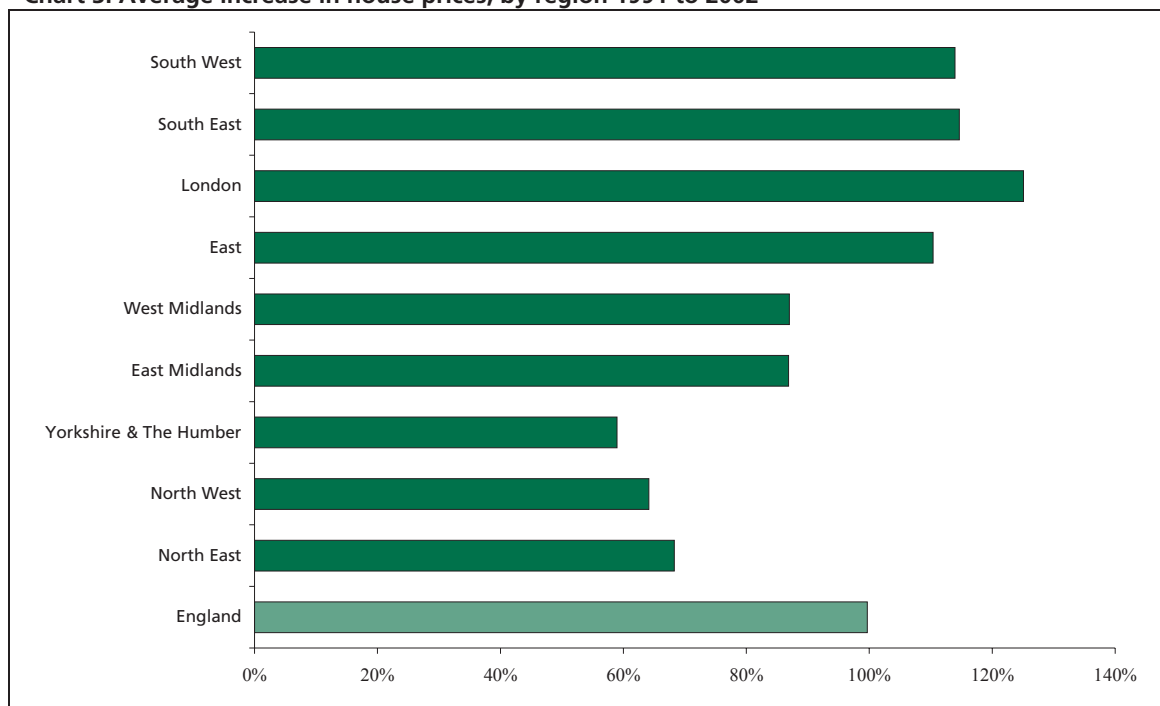
Revaluation

101. The Local Government Act 2003 set 1 April 2007 as the date for the council tax revaluation to be completed and for any resultant changes to council tax bills to come into effect. At present dwellings are placed into one of eight bands based on their assessed capital value at 1 April 1991. The present system of local government finance means that revaluation itself would not affect the total amount of money raised in council tax or average bills for the country as a whole. These are a function of government funding and local spending decisions. Revaluation will result in changes in council tax bills at a local level where house price increases between 1991 and 2005 diverge from the national average.

102. This first domestic revaluation is a highly significant event for council tax, coming as it does at a time when public confidence in council tax is low. If handled poorly it may further reduce public confidence and introduce additional problems for the council tax that make it unsustainable.

103. Since 1991 house prices have not changed uniformly across the country, or even within areas. If prices rise disproportionately in one local authority then its properties will move up the banding scale, equalisation grant is cut and *average* bills will increase, other things being equal. The chart below shows changes in house prices, by region between 1991 and 2002. There are very clear and substantial differences between regions; these will be even greater between local authorities across England.

Chart 3: Average increase in house prices, by region 1991 to 2002



Source: ODPM housing statistics, Table 522 Housing market: house price indices and annual inflation, by region

104. In recent years the difference in house prices at an intra-regional level has been lessening, and more recent data suggests that this trend is continuing.¹²⁵ However, the

¹²⁵ ODPM housing statistics, Table 590 Housing market: Mix-adjusted house price index, by region

difference between regions remains acute. The Corporate Director (Treasury) from Somerset County Council told us:

“The figures we have seen are that nationally revaluation will uplift the tax base by about 15%. The South West uplift will be 18% [...] So that 3% uplift results in a 10% increase in council tax, and when you think where that is going to fall, it is going to fall on the people who can least afford to pay it. This will be impacted, as you say, by people in the Bs, the Cs and the Ds [council tax bands], the nearly poor, the people who can least afford it, and actually council tax revaluation will not survive, council tax will not survive a simple uplift like that, something else has to be done to neutralise the impact of that.”¹²⁶

105. The opposite view was expressed (from the perspective of a low house price inflation area) by Mr Woods from Newcastle City Council:

“We think the impact of revaluation on the North East would be to bring benefits to the North East. Property values now have become out of date and the relationship between property values and the national increase in property values is that there has been a lower increase in the North East, although it has been catching up in the last couple of years very substantially. We would expect there to be an additional level of funding provided to the North East through resource equalisation in 2007, after revaluation, to reflect properly the difference in property prices at that point. [...] The poorer areas over a period of time then tend to lose out to wealthier areas, in terms of property values and in terms of any other form of taxation, be it income tax, local government tax or property tax. There is a gradual losing out over that period which occasionally gets corrected, and when that is done periodically it is a very visible shift of money from several parts of the country to the others and it becomes a problem at that point in time.”¹²⁷

106. Evidence from the Association of London Government estimated that straightforward revaluation would cost its members over £320 million in grant and introduce significant inequality across the country.¹²⁸

107. Organisations without a specific local focus also pointed out the regional inequalities that would occur if revaluation happened without any reform. The New Policy Institute said:

“The principle we think is important is that on average people on similar incomes in similar houses pay similar amounts of council tax no matter where they live geographically. At the moment that happens to be true. The problem with the revaluation is that it will up all the London house prices enormously and people in London will find themselves paying very much higher levels of council tax than

¹²⁶ Q 241 [Mr Bilsland, Corporate Director (Treasury), Somerset County Council]

¹²⁷ Qq 559, 560 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

¹²⁸ Ev 64 HC 402-II [Association of London Government]

people in other parts of the country, so it is because London house price inflation has been so high.”¹²⁹

108. The New Policy Institute gave more detail on inequalities between areas and reform in general in research for the Balance of Funding Review.¹³⁰ This found that there would be a transfer of central government resources, in very general terms, from South to North. Average council tax bills would rise where house prices have increased most and vice versa. This means that people in low band homes in the South will face large increases and pay more than those on similar incomes in other parts of the country. In addition, within regions current Band A properties in the North do not benefit as much because they are already in the bottom band. Similarly current band H properties in the South and London do not lose out as much as other properties in these areas because they cannot be moved to a higher band.

109. This analysis was supported by evidence from other organisations. The Local Government Information Unit said that “revaluation will make the problems with council tax worse; the more expensive properties in low inflation areas will gain most, while less expensive properties in high inflation areas will lose the most”.¹³¹ According to the Audit Commission ‘revaluation remains a thorny issue’ and could lead to significant and relatively arbitrary changes in the amount of tax people pay.¹³² Evidence from SIGOMA called for more regular revaluations,¹³³ while Wandsworth Borough Council called for the upcoming revaluation to be abandoned.¹³⁴

110. Simple revaluation, without any changes to the system, risks causing considerable turbulence for the council tax and at the least will result in greater regional inequalities related to council tax. It is also clear that a gap between domestic valuations of 14 years is unacceptably long. Options for reform are outlined in the following section.

Reform

111. Reform of the council tax system is clearly vital to its sustainability. Broadly speaking the evidence on reform falls into three areas: changes to the present national banding system; regional banding; and reforms of the council tax benefit system to make council tax more related to ability to pay.

National Banding System

112. We received evidence on the number of bands and their multipliers. The current eight bands, associated 1991 house prices and multipliers (how each band’s bill compares to band D) are given below:

¹²⁹ Q 23 [Mr Palmer, Director, New Policy Institute]

¹³⁰ BoF (16) January 2004 ‘Options for reform of council tax’ New Policy Institute

¹³¹ Ev 16 HC 402-II [Local Government Information Unit]

¹³² Ev 58 HC 402-II [Audit Commission]

¹³³ Ev 39 HC 402-II [Special Interest Group Of Municipal Authorities]

¹³⁴ Ev 19 HC 402-II [Wandsworth Borough Council]

Band	1991 Value	Bill as a percentage of band D
A	Up to £40,000	67%
B	Over £40,000 and up to £52,000	78%
C	Over £52,000 and up to £68,000	89%
D	Over £68,000 and up to £88,000	100%
E	Over £88,000 and up to £120,000	122%
F	Over £120,000 and up to £160,000	144%
G	Over £160,000 and up to £320,000	167%
H	Over £320,000	200%

The New Policy Institute argued:

“We think you need to increase the progressivity within the tax and that the way you do that is to attend to both the bottom of the current band A and also to the top, by which we mean G and H (G is obviously a double band). In some sense the surprising conclusion that we have come to in our research is that the middle of the council tax bands B, C through to F are for the most part there, they are regular, there is a logic to them and, most importantly, although there are lots of caveats attached to the arithmetic, it does look like council tax in those bands moves more or less in line with average household incomes. There is obviously a huge variation in the incomes of people in band B or band C, but in some sense we think you can keep the heart of the tax as it is and lower the tax at the bottom, following the same proportions as you have in the middle band and increasing it at the top again following the same proportions as you have at the minute.”¹³⁵

Their written submission added more detail:

“Within the middle bands, if a house is worth twice as much as another, it pays about 40% more in council tax. But that is not true either at the bottom, where a £20,000 home pays the same as a £40,000 one, or at the top, where a £1m house pays the same as £2m one.

“To do this, we suggest that:

- Change is needed at both the top and bottom of the banding structure, to increase the number of bands by splitting band A into 2 or more bands, by splitting band G into 2 bands and by splitting band H into as many bands as necessary. Throughout bands B to F, the most valuable property in the band is worth around a third more than the least valuable. A, G and H need splitting because the range they cover is much greater than this: thus in each of A and H, the top is worth at least four times the bottom while in G the top is worth twice the bottom. By contrast, apart from the uplifting necessary to take account of house price inflation since 1991, bands B through F can be left alone.

¹³⁵ Q 21 [Mr Kenway, Director, New Policy Institute]

- Multipliers for the new, split bands can be set so as to maintain the progression in the multipliers currently to be found in bands B to F. Applying the current multiplier structure with the new banding structure would produce a system in which those in the very top band could be paying perhaps 10 times as much as those in the very bottom band, compared with just 3 times as much at the moment. The net result is that, nationally and on average, the ratio of council tax to average household income would be roughly the same across all the bands.”¹³⁶

113. The thrust of these proposals received support from the Local Government Association, Local Government Information Unit, SIGOMA and the Audit Commission. The Audit Commission also added that any reform should be implemented at the same time as revaluation, but will inevitably result in winners and losers. They also suggested that council tax bills should explicitly state what changes are the result of reform and those which are caused by local spending decisions.¹³⁷

114. The Minister for Local and Regional Government confirmed that any changes to banding the resulted from the Balance of Funding Review could be implemented at the same time as revaluation.¹³⁸ He also commented on the proposed changes:

“You will be aware that we took a lot of detailed evidence, particularly from the New Policy Institute [...] I do not think it would break too many confidences and anticipate the conclusions of the review to say that we obviously looked with some interest at those and that our report is likely to comment on that area.”¹³⁹

115. We recommend that, in principle, banding should be expanded at either end of the scale with divisions in what are now bands A, G and H. We also recommend that multipliers should be changed to ensure that the new bands are broadly in line with household income, resulting in a wider range of liabilities from the present ratio of top to bottom bands of 3:1. All these reforms should be implemented at the same time as revaluation, in 2007, to avoid unnecessary disruption.

Regional banding

116. Many witnesses favoured the introduction of regional rather than national banding. A house valued at, say, £150,000 could be in different bands depending on where it is in the country. The New Policy Institute said:

“Unless something dramatic happens to house prices in the next year you will need some form of regional variation to allow government to take account of the fact that the incomes of people living in band C in London and the South East are very much lower than the incomes of people living in band C across much of the rest of the country. We think that that is actually quite do-able.”¹⁴⁰

¹³⁶ Ev 39 HC 402-II [New Policy Institute]

¹³⁷ Ev 58 HC 402-II [Audit Commission]

¹³⁸ Q 756 [Mr Raynsford MP, Minister of State for Local and Regional Government]

¹³⁹ Q 748 [Mr Raynsford MP, Minister of State for Local and Regional Government]

¹⁴⁰ Q 21 [Mr Kenway, Director, New Policy Institute]

The Association of London Government agreed with the New Policy Institute proposals saying:

“Extending the number of bands and/or changing the current weights might help reduce its regressive nature and improve the public acceptance of the council tax system, and should be examined before final decisions are taken. A study carried out for the ALG by the NPI has demonstrated the feasibility of using information about relative income levels to improve the fairness of council tax, and the ALG considers that decisions by the Government on revaluation must ensure that London residents are not required to pay proportionately more of their income in council tax than taxpayers elsewhere.”¹⁴¹

117. When questioned about these proposals the Minister for Local and Regional Government told the Committee:

“The New Policy Institute, in their evidence to us, highlighted the possible scope for this and also explored some of the potential disadvantages, including the possibility of cliff-edge effects between different regions, though there are cliff-edge effects between different local authorities under the current arrangements. Those issues certainly were considered by the review and we are very conscious that the revaluation, which is scheduled to take effect from 2007, will be quite a challenging process and that the possibility of some regional banding might be appropriate in that context. The reason for the difficulty in being more precise at this stage is that, as you will appreciate, the crucial element is the relative movement of values of property between 1991 and 2005 when the revaluation process begins. During the early part of that period, we saw disproportionate increases in values in the southern part of the country, but more recently we have seen increases in house prices in some of the northern regions exceeding trends in the south. Therefore, if one is going to get an overall picture of what the relativities are likely to be at the time of revaluation, one does have to wait a little bit longer. If one made assumptions about the relative positions of different regions, based on, let us say, data in the year 2000, it might have been very different to what the picture might be in 2005.”¹⁴²

118. In a paper to the Balance of Funding Review the New Policy Institute address some issues that arose from their initial proposals. They concluded that so-called cliff-edge effects (where council tax rates vary greatly between authorities, or even on opposite sides of the same street) would be smaller with a maximum of 15% compared to 100% in some extreme cases at present. In addition, regional boundaries tend not to cut through towns, so any differences would not be so physically obvious. The cliff-edge effects from regional banding would be different as they could show up as properties of a similar value being in different bands. They also looked at how household income by band varied by region. At present there was a fairly similar distribution across the country, with only the South West standing out with an average 10% income deficit. Regional banding made the distribution

¹⁴¹ Ev 64 HC 402-II [Association of London Government]

¹⁴² Q 749 [Mr Raynsford MP, Minister of State for Local and Regional Government]

more fair, compared to basic revaluation, other than for the South West, which still has a 10% income deficit.¹⁴³

119. We recommend that consideration be given to regional and sub-regional banding being introduced to address any inequalities caused by revaluations and changes to the banding arrangements but not addressed by equalisation.

Regaining public confidence

120. We have already commented on the popular feeling against council tax that has arisen in recent years particularly. If the council tax is retained, then ill-feeling is certain to increase with revaluation unless the ODPM and local authorities can convince the public that real changes have taken place and that revaluation is not likely to hit them as hard as they might expect, or are led to believe. The reforms to council tax and other recommendations in this report, if accepted, will go some way towards making real improvement. However without a comprehensive public information campaign, they may not be accepted or sustainable.

121. Mr Woods from Newcastle City Council told the Committee how people viewed revaluation:

“I think a lot of people have a misconception about the effects of the revaluation. A lot of people in the communities are very worried that the uplift of the values would mean that they would be paying more council tax immediately, and that is not true. It depends on relative changes around the country, and we have been trying to get that message to the local community, who do feel, especially over the last year, when property prices in the North East have jumped substantially, that in 2007 they will be paying huge amounts more. There is a clear message which needs to be got over to the local population that a simple revaluation does not mean automatically that you will be paying substantial amounts more, because the bands themselves will change.”¹⁴⁴

122. The Director of Local Government Finance from the ODPM said that they knew that revaluation was a big issue and that communication would need to be very clear, but could not say exactly what form this or any consultation would take.¹⁴⁵ Another official admitted that the ODPM does not even have a draft timetable for when this will begin.¹⁴⁶ The Minister for Local and Regional Government agreed that public confidence is important,¹⁴⁷ and, after we questioned what the ODPM is doing to increase public awareness of the effects of revaluation he replied:

“At the moment we are not, because at this particular time the primary focus of the department is on completing the balance of funding review. The revaluation process

¹⁴³ BoF (24) May 2004 'Reform of council tax: Further thoughts' New Policy Institute

¹⁴⁴ Q 563 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

¹⁴⁵ Q 158 [Ms Bell, Director of Local Government Finance, Office of the Deputy Prime Minister]

¹⁴⁶ Q 162 [Mr Allberry, Head of Taxation, Valuation and General Policy Division, Office of the Deputy Prime Minister]

¹⁴⁷ Q 747 [Mr Raynsford MP, Minister of State for Local and Regional Government]

will not begin until next year. Obviously preparatory work is being done with the Valuation Office agency to ensure that the necessary arrangements are in place for valuations to happen, but the impact of the changes will not occur until 2007 and it is slightly later down the line before it is really appropriate to begin to alert the public to the issue. If one currently raises questions about what the consequences of revaluation might be without having any answers to the questions people will raise, one might actually stir up a lot of anxiety without being able to give reassuring answers.”¹⁴⁸

He added that:

“Our conclusion was that it was probably appropriate to have a ten-yearly cycle of revaluations [...] Can I say that if people are worried that because of a large increase in their property value since 1991 they are likely to be faced with a large increase in council tax, the crucial message which we can all help to get across to our constituents at the present time is that there is no inherent consequence that will lead to increases in people’s council tax liability if their property has increased in value by the same average as applies across the country as a whole.”¹⁴⁹

123. The Committee accepts that there is little at the moment that the ODPM can say definitively about the effects of revaluation on an individual’s council tax bill. However, we are concerned that the Office had no plan ready to be implemented if council tax survives the Balance of Funding Review. There is a danger that council tax, however well reformed on a technical level, will not have public confidence and so will not be sustainable. We are not convinced that ODPM takes this issue seriously enough. **If council tax is retained, then the ODPM should, at the earliest possible date, draw up and implement a strategy with local authorities to improve public confidence in council tax and their knowledge of the impact of revaluation. This should not wait for detailed information on property values, which can be communicated later, but concentrate on the general effects of revaluation and how council tax has been reformed to address its failings. We also recommend that, as suggested by the Audit Commission, council tax bills in 2007 should separately identify changes in individuals’ bills that are the result of i) local spending decisions, ii) revaluation and iii) reforms to council tax.**

124. Revaluations are a vital part of the local government finance system and one which corrects for changes in authorities’ ability to raise income in the intervening years.¹⁵⁰ **We welcome the Minister’s commitment to a 10 year domestic revaluation cycle.**

Council Tax Benefit

125. The perception that the current method of local taxation is unfair arose in large part from the increases in council tax which a number of authorities introduced for 2003/2004, as a means of meeting their spending plans. The increases were felt to be particularly harsh on two groups: pensioners and low-income households, including the low-paid. The

¹⁴⁸ Q 759 [Mr Raynsford MP, Minister of State for Local and Regional Government]

¹⁴⁹ Q 760 [Mr Raynsford MP, Minister of State for Local and Regional Government]

¹⁵⁰ Q 760 [Mr Raynsford MP, Minister of State for Local and Regional Government]

impact may have been seen as greatest on low-income pensioner home-owners, the value of whose housing asset often bears no relation to their disposable income.

126. Council tax benefit (CTB) was introduced in 1993. It is currently paid to around 2.3 million claimants, at an annual cost to the budget of the Department for Work and Pensions of around £3.6 billion. Claims are made to, and handled by, local authorities. The Treasury estimates that there is a further £1.2 billion of council tax benefit unclaimed each year.¹⁵¹

127. There are a number of problems with CTB, which were aired in evidence to us: but the fundamental issue is that of take-up. Evidence from the New Policy Institute observed:

“More fundamentally, CTB currently fails to achieve its objective because take-up is so low. Around 6½ million people are entitled to CTB—much more than any other government benefit—but only 4½ million claim their entitlement—a lower proportion than any other government benefit. Take-up is particularly low among pensioners (three-fifths) and owner-occupiers (half).”¹⁵²

The Minister acknowledged the gravity of the problem:

“We know that for pensioners we are talking about rates of take-up of between one-half and two-thirds, which all of us would agree is far too low, especially amongst pensioners who are also owner-occupier [...] we will not be satisfied until everyone entitled to that benefit is receiving that benefit, especially those pensioners, perhaps 1.7 million pensioners, who are entitled to this help but are not getting it.”¹⁵³

128. There are a number of explanations for the dismal rate of take-up of council tax benefit:

- i. *Unawareness of the existence of CTB*: owner-occupiers who qualify for CTB may as a group be relatively less attuned than other groups to the possibility that they qualify for such assistance than other categories. As one witness suggested:

“I think one of the issues is that because quite a large number of people are owner-occupiers and because they often are not in constant communication with the state they do not get encouraged on an individual basis to apply for things whereas people in council housing are advised to do so.”¹⁵⁴

- ii. *The complexity of the application process*, and its separation from other related regimes such as state pensions: the Minister acknowledged both the problem of complexity:

¹⁵¹ Qq 687, 690 [John Healey MP, Economic Secretary to HM Treasury]

¹⁵² Ev 38 HC 402-II [New Policy Institute]

¹⁵³ Qq 390, 395 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

¹⁵⁴ Q 31 [Mr Palmer, Director, New Policy Institute]

“We recognise that it is inevitably too complex [...] But all the time we are looking to see whether or not we can reduce the size of those forms as well as make them easier to fill out.”¹⁵⁵

and the need to connect CTB with other related measures:

“The Pension Service is doing a lot of work to try to make sure that when people apply for pension credit they are told if they may be entitled to council tax benefit and they receive a copy of the form.”¹⁵⁶

- iii. The *stigma* attached to CTB being presented as a “benefit” rather than, more accurately, a “relief” from a tax; witnesses from the Association of North East Councils stated that:

“I think there is an issue particularly amongst some of the elderly people in society that it is a handout, a benefit, and many people are very self-reliant and reluctant to take up their benefit. The stigma of claiming benefits is something they will avoid at all costs.”¹⁵⁷

Cllr Bakewell, Leader of Somerset County Council, pointed out that:

“Some pensioners are far too proud to claim benefit, they feel they have failed if they have to claim benefit, and they would attempt to struggle on in quite desperate poverty in some cases.”¹⁵⁸

- iv. The sheer *numbers* of those eligible, which has risen as a result of increased benefit rates and thresholds, means that each year significant numbers of households qualify for the first time; as the Minister told us:

“We have also seen increases in council tax benefit rates and applicable amounts which are above the rate of inflation. That has meant [...] that the number of people eligible for council tax benefit has increased [...]”¹⁵⁹

- v. The particular problem with a punitive *savings* limit which does not affect take-up directly, but may well give the CTB a bad name, and penalise pensioners; as the New Policy Institute noted:

“One problem with CTB is the current savings limit. Households currently lose their entitlement to CTB if they have only modest amounts of savings; for example, it takes only an additional £10,000 of savings (above the first £6,000) to wipe out all entitlement to a benefit worth on average £1,000 a year. This amounts to a punitive

¹⁵⁵ Qq 394, 399 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

¹⁵⁶ Q 392 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

¹⁵⁷ Q 549 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

¹⁵⁸ Q 251 [Cllr Bakewell, Leader, Somerset County Council]

¹⁵⁹ Q 390 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

rate of "taxation" on small amounts of savings. We suggest that there is a strong case for abolishing, or at least substantially raising, the current savings limit."¹⁶⁰

129. The problem of low take-up of CTB is not a new one, and it is at least being addressed. The Minister told us:

"[...] through the council tax benefit awareness campaign which we launched a few weeks ago, we want to get across the message to pensioners that this is something to which they are entitled: they deserve it, they need it, and we want them to get it."¹⁶¹

and that:

"In my own county of Kent, for instance, all the local authorities are working together to coordinate the information they send to people about council tax benefit to try to increase awareness."¹⁶²

But in the same breath he warned:

"We have to recognise that we are dealing with local authorities who are independent and autonomous, who will pursue this campaign in different ways according to their local circumstances, and that is something that we welcome."¹⁶³

130. Whatever other changes are made to council tax benefit, the Government needs to give a higher priority to increasing its take-up by a number of readily identifiable target groups, in particular pensioners, and low-income households. It is unfortunate that the central Government is saving over £1.2 billion of unpaid council tax benefit every year, and that 2 million households are paying more than they should to local government.

131. Evidence to us from the New Policy Institute set out very cogent arguments for conversion of CTB into a form of tax credit, so that a household entitled to CTB would simply pay a reduced amount of council tax.¹⁶⁴ In oral evidence Peter Kenway argued:

"You do not need to have a benefit attached to a tax. People have remarked how strange it is to have a benefit to allow you relief from a tax. You could have a straight assessment on the basis of your income and your savings. You could have something much more like the way in which your income tax is assessed if you are self-employed or have to give in a tax return and I think that sending your information off to the Inland Revenue to find out how much you have to pay does have a different feel, it is a different relationship from that which you have when you are applying for a benefit, the money in some senses is moving in the opposite direction."¹⁶⁵

¹⁶⁰ Ev 38 HC 402-II [New Policy Institute]

¹⁶¹ Q 392 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

¹⁶² Q 401 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

¹⁶³ Q 404 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

¹⁶⁴ Ev 40 HC 402-II [New Policy Institute]

¹⁶⁵ Q 29 [Peter Kenway, Director, New Policy Institute]

In written evidence the New Policy Institute noted the particular attraction of its scheme for pensioner households:

“Because a pensioner household's maximum liability is likely to change very little, even over a number of years, once its normal council tax has reached that level, the amount that has to be paid will hardly change. This gives such households certainty about the size of future council tax bills and it makes it clear to them that they are protected against further rises in the level of council tax set by local authorities.”¹⁶⁶

132. When asked during an evidence session if council tax benefit would be better received as a tax credit rather than a benefit the Minister replied, “It is very possible that it would be [...] That is one of the things we are looking at carefully.”¹⁶⁷ We are pleased to note that the prospect of conversion of CTB into a tax credit is being seriously examined within Government. **We recommend that in response to this report the Government set out the nature of the inquiries it has set in motion into conversion of council tax benefit to a tax credit, any obstacles identified so far, and a timetable for possible implementation. We are strongly of the view that this is the way forward in making a property tax a more acceptable means of raising local revenue. We do not, however, underestimate the time and effort required to implement such a change, not least at local level. As an interim measure, and a further means of improving take-up, we therefore recommend that council tax benefit be re-branded as council tax discount or rebate, more accurately reflecting its true nature.**

Equity release schemes

133. The problem with the current system of council tax where individuals who are asset rich, but income poor, face large bills could be solved if they were encouraged to release some of their capital from their property. An equity release scheme, provided by reputable organisations, perhaps endorsed and promoted by local authorities, could be a means of achieving this. Alternatively, proponents of the land value tax have suggested that a deferment of council tax payment could be made through bonding. They have argued that a householder could postpone the payment of local taxation and when they leave the property, “The council tax plus interest at base rate would then be payable to the council when the property is sold or developed”. **The Government should do further work to ensure equity release schemes, or other means of deferring payment, are available.**

¹⁶⁶ Ev 40 HC 402-II [New Policy Institute]

¹⁶⁷ Qq 435, 436 [Mr Pond MP, Parliamentary Under-Secretary of State, Department of Work and Pensions]

5 Review of Local Income Tax as an alternative

Background

134. The idea of a local income tax has a long history. It has been considered on previous occasions as a potential solution to the balance of funding problem. The Layfield Commission concluded in 1976 that there should be major changes in the financing of British local government. A majority of the Commission argued that a choice should be made between fuller central control and much greater local accountability. In their view the best method of achieving greater local accountability would have been to change the emphasis of the balance of funding from central to local government. They suggested that this additional local taxation would best be provided by a local income tax.¹⁶⁸ More recently, the Liberal Democrat Party has proposed the replacement of the council tax with a local income tax. The basis of the Liberal Democrat proposal is that:

“The scrapping of the council tax and its replacement with a fair local income tax based on ability to pay would significantly contribute to local authority accountability and address the fundamental flaws in the council tax system. It would stop the poor paying more for their local services as is the case under the council tax.”¹⁶⁹

Positive aspects

135. The Balance of Funding Review has commissioned work on local income tax. An initial paper by Professors John Loughlin and Steve Martin from Cardiff University considered the lessons that might be learned from different approaches to the balance of funding across Europe. The report noted that income tax levied and collected by local authorities was found mainly in the Nordic countries (Denmark, Finland, Iceland, and Sweden), and also in Belgium and Switzerland. It pointed out that international experience suggests that a local income tax offered two main advantages: its simplicity both in the basis of assessment and its rate of assessment. It set out differences in the ways the tax can be calculated. The local rate is applied on a proportional basis, which reflects two different philosophical approaches: redistribution on the part of the state and the defence of the common good on the part of local authorities. The report concluded that it was more equitable than the alternatives and could be adjusted for inflation both continually and uniformly.¹⁷⁰ In a later paper for the Balance of Funding review CIPFA considered the implications of the function of local income tax as a supplement to a property tax.¹⁷¹ The potential consequences of this will be discussed later.

¹⁶⁸ Department of the Environment 1976 ‘Local Government Finance’, HMSO

¹⁶⁹ <http://www.libdems.org.uk>

¹⁷⁰ BoF Research Sub-Group – Meeting 18 November 2003 – Paper 12 ‘International Lessons on Balance of Funding Issues: initial paper’, paragraph 3.3.5. J. Loughlin and S. Martin

¹⁷¹ BoF (7) May 2004 ‘Reviewing the case for a local income tax – supplementary report’ CIPFA

136. Those who support the implementation of the local income tax suggest that its merits stem from its fairness, buoyancy, transparency and ease of collection. As Cllr Bakewell Leader of Somerset County Council put it,

“It will affect those who earn more. They will pay more, and those who earn less will therefore pay less [...] Some of the younger people will pay more, some of the elderly people who are on high incomes, because there are some of the elderly on high incomes, would also pay more. It is a nonsense that somebody on a fixed income should pay 10% of their disposable income in council tax and yet somebody on a very high income only pays 1% of their income in council tax.”¹⁷²

Replacement for or supplement to the council tax

137. It is not inherently obvious why a local income tax, if introduced, should not supplement rather than replace council tax. CIFPA wrote in evidence to us:

“If it were implemented to supplement rather than replace the council tax, it would be possible to increase local income tax progressively, whilst in parallel making broadly matching adjustments to national income tax rates. In this way it would be possible to demonstrate “neutrality”, i.e. no overall increase in taxes, to taxpayers.”¹⁷³

And in their research for the Balance of Funding Review they suggested that as a supplement to a local property tax this would create, “[...] a particularly robust local tax base – part property, part income – and therefore a long term solution”.¹⁷⁴ Professor Bramley commented: “You could have income tax as well and there are precedents from some of the Northern European countries, for example, for having a locally assigned income tax”.¹⁷⁵

138. Local income tax as a supplementary source of income would be complex. Mr Sugden from the North East Chambers of Commerce told us “We would see that as an overly complex means of raising revenue”.¹⁷⁶ The Local Government Information Unit have argued that, “It would not be feasible to supplement the council tax with a local income tax as a result of the current review—given the complexity of its introduction—returning the business rate makes much more sense”.¹⁷⁷

Negative aspects of local income tax

139. The Balance of funding research sub-group concluded that there were some disadvantages to local income tax. For example,

- its base is limited by options decided at a higher level;

¹⁷² Qq 285, 258 [Cllr Bakewell, Leader, Somerset County Council]

¹⁷³ Ev 35 HC 402-II [Chartered Institute of Public Finance and Accountancy]

¹⁷⁴ BoF (7) May 2004 ‘Local Income Tax: Supplementary Report - Powerpoint Slides’ CIPFA

¹⁷⁵ Q 69 [Professor Bramley, Heriot Watt University]

¹⁷⁶ Q 502 [Mr Sugden, Director of Policy, Chamber of Commerce in the North East]

¹⁷⁷ Ev 16 HC 402-II [Local Government Information Unit]

- it is not very transparent – local tax policy and national tax policy are difficult to separate; and
- the “joint” nature of the tax means that the central government must become involved in setting the base and the rate of the tax, thus lessening the autonomy of local authorities.¹⁷⁸

140. It has also been suggested that local income tax would be more costly to collect than council tax, and would impose an additional administrative burden on employers operating PAYE. In response to the first criticism Chris Bilisland from Somerset County Council argued that:

“It is more expensive than council tax collection, because we know one of the benefits of council tax collection is that property is easy to tax, easy to find, nobody disputes that, but it is still an affordable cost in terms of the tax yield and the cost of many other tax collections.”¹⁷⁹

The LGA accepted that:

“[...] there are concerns regarding the administrative complexity and costs to both government and business which would have to be addressed. A possible alternative is to assign a portion of national income tax revenue to local government, which could evolve into a LIT, subject to further review.”¹⁸⁰

141. Andrew Sugden from the North East Chamber of Commerce noted: “our perspective on a local income tax is the burden it would place on businesses in terms of administration, rather than necessarily how it might work in terms of a charging mechanism on the citizen”.¹⁸¹ The British Chambers of Commerce argued that, “making the Inland Revenue responsible for collecting income tax and then passing it on to local authorities is overly complex and invites disaster. Again this proposal fails the transparency and accountability test.”¹⁸² Henry Law, Honorary Secretary of the Land Value Tax Campaign warned:

“Complications would arise when taxpayers live in one tax area and work in another. Income tax is often deducted by employers, at source, through the PAYE system. Provisions would have to be made for employers to identify by home address the appropriate income tax rate for every employee, make deductions accordingly and ensure that the Inland Revenue was correctly paid, whilst the latter would have to remit the correct amount to the appropriate local authority. Any conceivable administrative procedure will be clumsy and costly in relation to the sums involved.”¹⁸³

142. The Chartered Institute of Public Finance and Administration told us:

¹⁷⁸BoF Research Sub-group – meeting 18 November 2003 – paper 12 ‘International lessons on balance of Funding Issues: initial paper’, paragraph 3.5.5 J. Loughlin and S. Martin

¹⁷⁹ Q 288 [Mr Bilisland, Corporate Director (Treasury), Somerset County Council]

¹⁸⁰ Ev 25 HC 402-II [Local Government Association]

¹⁸¹ Q 504 [Mr Sugden, Director of Policy, Chamber of Commerce in the North East]

¹⁸² Ev 28 HC 402-II [British Chambers of Commerce]

¹⁸³LGR B/P 10 2004 ‘Options for Local Government Finance’ Henry Law p.8

“Work undertaken by CIPFA demonstrates that local income tax is a realistic option, but a complex one, with much of the "devil in the detail"—not least the redistributive effects that it would have. It would require extremely detailed planning and preparation—and the time necessary to achieve this.”¹⁸⁴

143. The introduction of a local income tax in 1976 would have been a leap in the dark, which ahead of new technology would have created acute administrative problems for local government. Since then new technology, and a scaling down of the plan for local income tax to that suggested by CIPFA, has created a system that might work. Nevertheless, the evidence is not remotely persuasive. Administration would be costly. There is still far too little known about the practical implications including the cost, redistribution effect, impact on tax payers, including first time buyers, and where people choose to live. It would be unwise to pursue implementation of a local income tax before detailed research on these areas had been undertaken.

¹⁸⁴ Ev 35 HC 402-II [Chartered Institute of Public Finance and Accountancy]

6 Business Rates

Background

144. Business rates (also known as national non-domestic rates) are chargeable on all non-domestic properties, except land or buildings used for agriculture.¹⁸⁵ They are collected by local authorities and are the means by which businesses and others who occupy non-domestic property make a contribution towards the cost of local services. The rates are paid into a national ‘pool’ and then redistributed to local authorities according to the number of people living in the area (except in the City of London where special arrangements apply). Business rates are therefore currently operated as a hybrid of local and national taxes.

145. For the purposes of the Balance of Funding, however, business rates are treated as a tax controlled by central government. The Government has set the annual rate in the pound since 1990 when business rates were “nationalised”; previously local authorities set local business rates. The amount payable in business rates by a business is a percentage of the rateable value of the premises. The percentage or “rate in the pound” is set annually by the Government, not by local authorities. The Government determines the level of payments by fixing the rate poundage - currently 45.6 pence in the pound in England and Wales. There is, however, currently a limitation: the national rate in the pound can only be increased in line with inflation.

146. Every five years there is a national revaluation of non-domestic property. At revaluation the rate in the pound multiplier is re-set to ensure the national yield remains the same in real terms. For an individual business this means that its rates bill will only increase in real terms where the rental value of its premises has increased by more than the national average since the last valuation. For a business where its increase has been less than the national average, its rates bill will fall in real terms.

147. The Committee considered three issues:

- i. whether the annual increase in business rates should be limited to the increase in inflation;
- ii. whether business rates should be “relocalised”, that is, whether each local authority would set the rate in the pound in their area; and
- iii. if rates were relocalised, what safeguards should be put in place to protect business from excessive increases.

Balance of funding: business rates

148. The contribution which business makes through the business rates to local government has been capped at the amount in real terms which business paid when the new system came into operation in 1990. As local government expenditure has increased

¹⁸⁵ "Agricultural land" and "Agricultural buildings", as defined in paragraphs 1-8 of Schedule 5 to the Local Government Finance Act 1988, are exempt from rating. In addition, rate relief is available for businesses with rateable values of up to £6000, where the business is set up on previously agricultural land or buildings.

since 1990 by significantly more than inflation, the proportion of local authorities' revenue which comes from business rates has therefore gone down each year since 1990 and a larger proportion has had to come from government grant, the council tax and other sources.¹⁸⁶

149. Although business had doubts about the system when it was introduced in 1990 (the Confederation of British Industry (CBI), for example, it was reported, had said in 1990 that local authorities would have no incentive to provide services to businesses or to take business interests into account in planning new schemes),¹⁸⁷ the Committee discovered that business considered that the system of rates “works acceptably and there is no wish in the business community to abolish them or change them”.¹⁸⁸ The Committee found that witnesses from business liked the current arrangements and were strong advocates of the status quo:

“There are a number of reasons why the current system is attractive to businesses. It is not simply that it is pegged to inflation and council tax is not; it is a national scheme. It enables businesses, both local and national, to plan their investment and their cost base over a five year period. It is fair in the sense of being between authorities. There is not a competitive element between localities which, depending on how prosperous the economy is, can quite easily destabilise the cost base and the abilities of some businesses depending on where they are located.”¹⁸⁹

“We would be opposed to doing away with the national business rate and relocalising it, because businesses need consistency, certainty and simplicity above all.”¹⁹⁰

“It gives business vital protection against unaffordable rate increases and eases planning over both the short and long term.”¹⁹¹

“The [business rate] has also achieved a fairer distribution of rate liability, with the national poundage ensuring that bills are more closely aligned to ability to pay than they would be if companies were exposed to arbitrary local variation.”¹⁹²

“The thing to remember about business rates is it is a tax on inputs, so regardless of profitability businesses will be paying a proportion, so the proportion of profits will vary quite significantly. That was important, I think, last time under the localised system, because significant increases affected very much those businesses which perhaps did not have the margins and were not as profitable as others. I think that is an important point to remember.”¹⁹³

¹⁸⁶ Q 167 [Ms Bell, Director of Local Government Finance, Office of the Deputy Prime Minister]

¹⁸⁷ Q 628 [Bill O'Brien MP]

¹⁸⁸ Q 311 [Mr Lewis, Director of Finance, South West Regional Development Agency]

¹⁸⁹ Q 456 [Mr Sugden, Director of Policy, Chamber of Commerce in the North East]

¹⁹⁰ Q 299 [Mr Lewis, Director of Finance, South West Regional Development Agency]

¹⁹¹ Ev 49 HC 402-II [Confederation of British Industry]

¹⁹² Ev 49 HC 402-II [Confederation of British Industry]

¹⁹³ Q 601 [Ms Turner, Head of infrastructure, Confederation of British Industry]

150. As well as business rates, local government is financed by central Government from taxes (for example, corporation tax, income tax and VAT) paid by businesses themselves and by their employees, who also pay council tax. The gross contribution which business makes to local government revenue is therefore greater than the amount paid in business rates. When the Committee pointed out that in County Durham, for example, over the last three years there has been a 30% increase in council tax, the witness from the North East Chamber of Commerce said it was “perfectly fair” that the increases in business rates had been pegged to inflation “because that environment has enabled our businesses in the North East to create more jobs and wealth to enable others to pay council tax”.¹⁹⁴

151. Because the total contribution from business rates has been capped at the amount in real terms paid when the new system came into operation in 1990, the other pillars of the local government revenue – the council tax and government grant – have had to carry more of the burden when local government has needed to spend more. As the table below shows, in 1990-91 £10 billion in business rates was distributed to local authorities, which provided 29% of the balance of funding. By 2004-05, although the cash amount had increased to £15 billion, this provided only 20% of the balance of funding.

Funding of revenue expenditure from business rates £ billion		Balance of funding from business rates
<i>Rating system</i>		
1985-86	6.7	28 %
1986-97	7.6	28 %
1987-88	8.1	28 %
1988-89	8.8	28 %
1989-90	9.6	29 %
<i>Community charge system</i>		
1990-91	10.4	29 %
1991-92	12.4	32 %
1992-93	12.3	29 %

¹⁹⁴ Q 454 [Mr James, Area Manager (Tyne and Wear), North East Chamber of Commerce]

Funding of revenue expenditure from business rates £ billion		Balance of funding from business rates
<i>Council tax system</i>		
1993-94	11.6	28 %
1994-95	10.7	25 %
1995-96	11.4	25 %
1996-97	12.7	27 %
1997-98	12.0	25 %
1998-99	12.5	25 %
1999-2000	13.6	25 %
2000-01	15.7	27 %
2001-02	15.1	24 %
2002-03	16.6	25 %
2003-04	15.6	22 %
2004-05	15.0	20 %

Local Government Finance Key Facts: England, the Office of the Deputy Prime Minister and National Statistics, February 2004 and www.local.odpm.gov.uk

152. In their evidence to us the New Policy Institute suggested that “if the business rate had gone up in line with council tax since 1997/98 the council tax increase that we have seen since then would have been reduced overall by about a third”.¹⁹⁵

153. No one wants to pay more tax, and the Committee recognise that business makes a substantial contribution to the costs of providing local services not only through business rates but also through national taxation and the payment of local authority fees and charges. We do not agree with the Treasury, however, that “the approach we have at present for setting the level of business rate is right”.¹⁹⁶

154. First, the world has moved on since 1990. Many local authorities now offer a range of business-support services to encourage economic development and regeneration. In addition, local authorities now provide a wider range of services to business. Local authorities are, for example, responsible for waste collection and disposal and they have been at the forefront in implementing the Government’s the National Waste Strategy which is a requirement of the EC Waste Framework Directive 75/442/EEC.¹⁹⁷ Local authorities advise on waste minimisation techniques and some provide waste disposal and recycling centres.¹⁹⁸

¹⁹⁵ Q 39 [Mr Kenway, Director, New Policy Institute]

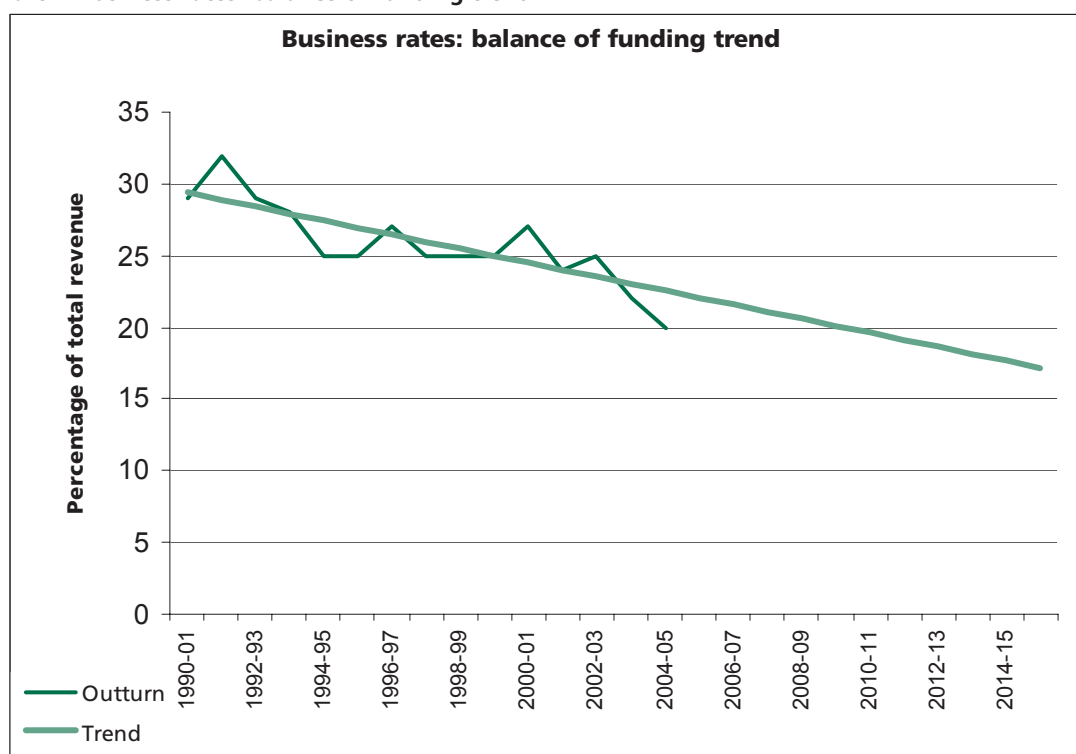
¹⁹⁶ Q 695 [John Healey MP, Economic Secretary to HM Treasury]

¹⁹⁷ *Waste Strategy 2000*, Standard Note SN/SC/1358, House of Commons Library, July 2000

¹⁹⁸ *Local Authority Services: An Overview*, Business Link, <http://www.businesslink.gov.uk/bdotg/action/detail?r.s=sl&type=RESOURCES&itemId=1074441617>

155. Secondly, the current arrangements have become unbalanced and put too much of the strain of raising local revenue on the council taxpayer. It would be neither practical nor sensible to put the clock back to 1990 to increase the proportion of local revenue which comes from the business rates to 29% again. But, if the business rates remain frozen at the 1990 level, by 2015 only 17% of local government revenue will come from business rates (see Chart 4, below). The strain will inevitably fall on those parts of the system which are not capped, in particular, on the council tax payer. **In the Committee's view it would be both practical and sensible to halt the decline in the proportion of local revenue which comes through business rates.**

Chart 4: Business rates: balance of funding trend



Outturn date from Local Government Finance Key Facts: England, the Office of the Deputy Prime Minister and National Statistics, February 2004

156. **The Committee therefore recommend that the cap which prevents business rates increasing by more than the rate of inflation is removed. Irrespective of whether business rates remain at a uniform national rate set by central government or are relocalised and set by local authorities, the Committee believe that the proportion of local government revenue which is raised nationally through the business rate would be fairer at a level of 25%.**

Relocalisation

157. Until 1990, the “rate in the pound” which businesses paid varied from one local authority to another. Each local authority had discretion to decide how much they needed to levy from local businesses. The result was “over 350 different business rates – for example, in 1985 rate poundages varied by more than 196 pence on the pound, with

Gillingham charging 151p and Newcastle-upon-Tyne 347p”.¹⁹⁹ While accepting that there was a significant variation in rate poundages before 1990, the Committee noted that the rateable values of identical businesses could vary across the country. As the rates bill paid by a business is the product of the rateable value of its premises multiplied by the rate in the pound, it did not make financial sense that in 1985 businesses in Newcastle-upon-Tyne, where rateable values were likely to be lower than Kent, paid as much as 2.3 times the rates of comparable businesses in Gillingham.

158. The evidence which the Committee received from business opposed relocalisation of business rates. The focus of concern was the level and effect of increases in business rates which a number of authorities had imposed when rates were under local control:

“It was the scale of the annual increases [before 1990] which was particularly the bone of contention. [...] The analysis at the time, before the national non-domestic rate was introduced, suggested that the annual increases across a range of local authorities was way in excess of the rate of inflation at the time, and it was that scale of impact which was of particular concern. Some identified the impact in terms of their profitability, some identified the impact as being a reason why they would reconsider where they based their business operations. [...] I suppose our view is informed by what happened the last time round. [...] all the evidence, talking to businesses at that time, was that the net impact, particularly of the larger-scale increases in certain local areas, was a negative one.[...] The rates often bore very little relationship to the wider economic context. Even at times of recession rates varied enormously and were increasing significantly. There was a massive variation in the rates which did not bear any relation to the property market, to economic conditions, but bore relationship to what local authorities wanted to set the rate at.”²⁰⁰

“I can remember before, when local rates were localised and it brought a great deal of acrimony. Businesses now have had a substantial period of time with the national non-domestic rate. It has enabled jobs and growth to happen in the North East. For a number of years after the nationalisation of the business rate, Newcastle struggled actually to come to terms and put right the damage that occurred before, with businesses moving to other areas where the business rates were lower. So I think the national rate system is robust: it is not broken; we should not fix it. The equalisation seems to work very well and I think that is a very robust basis on which to continue.”²⁰¹

159. The arguments in favour of relocalisation were advanced by local authorities, their representative organisations and by the policy research bodies from whom the Committee took evidence:

“If the business rate were returned to local control, it would bring the balance of funding back in line broadly with the 50/50 split as it was previously, slightly less

¹⁹⁹ Ev 50 HC 402-II [Confederation of British Industry]

²⁰⁰ Qq 588-589 [Mr Roberts, Director of Business environment and Ms Turner, Head of Infrastructure, both Confederation of British Industry]

²⁰¹ Q 446 [Mr James, Area Manager (Tyne and Wear), Chamber of Commerce in the North East]

because obviously business rate since 1990 has not increased as much as council tax and as much as national income tax support for local government. That would help in terms of restoring the balance of funding.”²⁰²

“I do not think that the lack of accountability argument really works because we never hear that in relation to corporation tax or the many other charges that fall on businesses. Businesses do not have votes in general elections. I think we are a fairly mature capitalist democracy now. People know that they work for businesses and their pensions are invested in the shares of businesses and so ultimately it is about people and people own businesses.”²⁰³

“[...] there is no evidence that location of business is particularly influenced by the level of business rates. On the contrary, the evidence of the Cambridge studies in the 1980s and the experience of the enterprise zones which gave ten-year rate-free periods afterwards was that what is important is the total property outgoing. To the extent that the property tax rises, the rents go down. What we experience, certainly in my enterprise zone, was that the rents rose within the enterprise zone so that the total property outgoings remained the same inside and out. [...] Commercial property tax is a tax on commercial rents in effect and the CBI has completely misconceived that element. Furthermore, they argue that business pays other taxes; well so does every other taxpayer, we all pay a variety of taxes. The other point they seem to overlook is that business is both a huge supplier of services to local government, actually benefits from local government activity in that sense, and they also indirectly benefit from many of the services we provide. We think that at the moment they are not paying a fair share. The final point is that it has to be kept in proportion. Business rates amount to something like 3% of turnover. I am not saying that is insignificant, but a change in that is not of itself hugely burdensome. We do need to revisit the question of business rates.”²⁰⁴

160. The Committee believe that returning business rates to local control would significantly increase local authorities’ control of their revenue. It would shift the central / local government balance of funding from around 75% / 25% to around 55% / 45%. In the Committee’s view it must be a priority to make a change in the balance of funding. This change would reduce the effects of gearing, take some of the pressure off the council tax payer and it would provide a real link between local authorities and business. Although it might require primary legislation, the restoration of business rates to local authority control can be achieved faster than some of the other reforms, such as the introduction of local income tax which have been proposed as part of the Balance of Funding Review. **The Committee therefore recommends that the Government returns business rates to local authority control as soon as possible, but no later than 1 April 2006. In addition, the proportion of local government revenue derived from business rates should account for at least 20% of total local government revenue.**

²⁰² Q 579 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

²⁰³ Q 39 [Mr Boles, Director, Policy Exchange]

²⁰⁴ Q 837 [Sir Jeremy Beecham, Leader of the Labour Group, Local Government Association]

Safeguards for business

161. The Local Government Association told us that, if business rates are restored to local control (which the Association favours), there have to be strong safeguards.²⁰⁵ Cllr Chalke from the Local Government Association pointed out that:

“we cannot allow the extraordinary increases which have been levied in the past on business; my own factory had a 29% increase in one year. You cannot allow that to happen. Business is in a competitive world, it is competing worldwide.”²⁰⁶

162. There was some evidence from business that local authorities had learned lessons from the problems caused by large increases in business rates under the pre-1990 system and that local government as a whole was more attuned to the needs of business:

“We had really a once a year engagement with local authorities where we were given huge bundles of papers at very short notice for meetings where things went through on the nod, and businesses had no say really whatsoever in local authority finance. If you contrast that with today, we can have meetings with local authorities where the consultation is the contact for a wider discussion on education and other matters, that we can work with the local authorities on, so there is a much more positive situation now than there was before the nationalisation of business rates.”²⁰⁷

“We would argue that one of the reasons why that conversation between business and local government has improved is because one of the major bones of contention which did exist before has been removed, in other words, the annual setting of a rate which was set locally. We recognise that life has changed and that local authorities probably are more focused on the needs of economic development in their areas, in some cases.”²⁰⁸

163. But the picture was far from universal. The Committee heard that in the South West “the relationship between local authorities and their support for businesses, like everything, varies dramatically across the region. Some are very good and some are very poor”.²⁰⁹ Paul Woods, City Treasurer from Newcastle-upon-Tyne City Council, told the Committee that:

“there is considerable concern [...] among some local authorities in the North East not to deter business. We are very conscious of the concerns of business, so we would want to see appropriate controls, which would mean that the tax increases for businesses would not be substantial, so some limiting around the level of the local tax increase might be said to be appropriate as well. Significant partnerships are being built up with local business communities in the North East by individual councils, and there is a concern that those business partnerships could be damaged if there

²⁰⁵ Q 838 [Cllr Chalke, Leader of the Conservative Group, Local Government Association]

²⁰⁶ Q 838 [Cllr Chalke, Leader of the Conservative Group, Local Government Association]

²⁰⁷ Q 460 [Mr James, Area manager (Tyne and Wear) Chamber of Commerce in the North East]

²⁰⁸ Q 590 [Mr Roberts, Director of Business Environment, Confederation of British Industry]

²⁰⁹ Q 313 [Mr Lewis, Director of Finance, South West Regional Development Agency]

was a very negative reaction of businesses to the full restoration of business tax locally”.²¹⁰

164. The Government should, in the Committee’s view, ensure that the improvements in relations between local authorities and business achieved since 1990 are protected. As the CBI put it to us,

“without any clear parameters [...] there would be a real fear within the business community that local authorities would see the business rate as a way of reducing the pressure on council tax and would use that because of the pressure from local taxpayers on the local authorities. There would be far more pressure from that community to lower the council tax and push the burden onto business, rather than vice versa”.²¹¹

The Committee received evidence suggesting the parameters which could restrict local authority increases in business rates.

- Policy Exchange said: “there is an interesting idea being suggested as a way of perhaps allaying some of the more acute concerns of business, which is to link the rate of the increase that any local authority could apply to the business rate to the rate of increase in the council tax, so basically if you are going to put the council tax up by 4% then you can put the business rate up by 4% but no more”.²¹²
- The CBI suggested that for dialogue to be meaningful: “there needs to be some comfort given in terms of the efficiency with which that money raised is spent, and I think there needs to be some ability on the part of business to influence how those decisions are made about where the money is spent”.²¹³

165. The Local Government Association also made the point that, even if increases in local business rates were linked to council tax increases, business should not be exposed to excessive increases. The Association said:

“this year [2004-05] is a very easy year to argue; the council tax has gone up on average by 6%; business rate went up by 2%. If the two had been together, it would have been a 4% increase; indeed if you had had a wider base it might have been even less. That is not a price which the business community would baulk at too much. If you go back to last year [2003-04] when it was an average of 12.9% increase in council tax, I do not think we should have been inflicting that sort of increase onto the business community.”²¹⁴

166. When business rates are restored to local control, the Committee recommends that the Government put in place a mechanism to prevent excessive increases by, for

²¹⁰ Q 579 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

²¹¹ Q 592 [Ms Turner, Head of Infrastructure, Confederation of British Industry]

²¹² Q 39 [Mr Boles, Director, Policy Exchange]

²¹³ Q 592 [Mr Roberts, Director of Business Environment, Confederation of British Industry]

²¹⁴ Q 838 [Cllr Chalke, Leader of the Conservative Group, Local Government Association]

example, limiting the annual increase in business rates in an area to no more than the annual percentage increase in the council tax in the area.

167. For as long as the Government continues to set a national rate in the pound but with annual increases greater than inflation, the Government should consider:

- enshrining in primary legislation the maximum rate of increase above inflation that can be imposed; and
- announcing any increases above inflation as part of a three year rolling programme.

Equalisation

168. If business rates are returned to local control the Committee would expect that the grant distribution mechanism be adjusted to take account of the disparity in local authorities' business tax bases, and ensure that grant continues to allow each local authority to spend to provide a standard quality of service across the country. In addition, in their evidence to the Committee Policy Exchange pointed out that

“for equalisation purposes there are places, for example Westminster, where we are going to need to have some way of retaining some portion of their business rate take because otherwise they would be paying their residents a council tax benefit because they have been raising so much from business rates.”²¹⁵

²¹⁵ Q 39 [Mr Boles, Director, Policy Exchange]

7 Different tiers of Local Government

Two tier authorities

169. The different tiers of local authorities bring an additional dimension to the local government revenue debate. Council tax is currently collected by unitary authorities, London borough councils and metropolitan borough councils, and in two tier areas by shire districts and borough councils. Fire and Police authorities also have a precept on local council tax bills. And since 2002, when the White Paper ‘Your Region Your Choice’ was published, there is now the potential of a regional dimension. Each authority spends money and so has a potential influence over the level of council tax demanded.

170. As it currently stands it is not a system that is easy to follow. There is a general lack of clarity for local residents regarding the provision of services. As Sir Jeremy Beecham noted, “In the two tier areas there is already considerable confusion, as you have already indicated, as to who is responsible for what”.²¹⁶ For example, a district authority might collect waste, but a county authority will be responsible for the management of its disposal. When it comes to understanding what is being charged for on a council tax bill, the divide between county and district makes a complex system even more confusing.

171. The Committee believes that the complicated nature of sub-national service provision and service cost needs further clarification, and that the Government should review the information that accompanies council tax bills. Whatever judgement is made on implementing a revised council tax, the Committee believes that the Government should survey authorities to gauge current best practice and feed these findings back into the central-local partnership for discussion, before the next council tax bills are issued.

Parish Councils

172. Parish councils obtain their revenue from a precept on council tax bills. They use their money to invest in small community projects, which often involve the greatest accountability, due the small nature and size of their remit and electorate. When considering the possible changes to the current council tax the Somerset Association of Local Councils was most concerned about the impact of a local income tax. Their representative, Peter Lacey, argued that

“For Local Income Tax to be relevant to Parish Councils without any other form of tax there would be a need for a basic rate of tax taken to say five places of decimals. Computerised payroll working could cope, but simplicity needs to be the key and the manual operation of the PAYE codes is already under attack as too complex for small businesses.”²¹⁷

He further argued that,

²¹⁶ Q 831 [Sir Jeremy Beecham, Leader of the Labour Group, Local Government Association]

²¹⁷ Ev 37 HC 402-II [Somerset Association of Local Councils]

“Without a locally sensitive tax the direct relationship of the precept to the Parish would be lost and therefore the local link of revenue to borrowing capacity would also disappear. Some form of local tax is essential from the perspective of our members so that local decisions have local direct relevance. A "local" local tax is also essential for the security of the revenue for any repayments arising on borrowings.”²¹⁸

173. The Somerset Association of Local Councils argued that local taxes should represent the wishes of the local community, and that their accountability was premised on that. Peter Lacey indicated that the Parish Council decision-making process was one that involved a large number of local residents.²¹⁹ **The laudable desire of Parish councils for expenditure directly attributable to their activities to be known to local electors, and to be raised from local taxation, is a further strong argument for a local tax base and local taxes.**

²¹⁸ Ev 37 HC 402-II [Somerset Association of Local Councils]

²¹⁹ Q 219 [Mr Lacey, Chief Executive, Somerset Association of Local Councils]

8 Alternative means of raising local revenue

Central funding: 'IsItFair' Campaign proposals

174. The 'IsItFair' Campaign suggests that the solution to the problem of people on low incomes paying too great a proportion of local taxation lies in abolition of council tax and the financing of local authorities by central Government. It proposes:

“that homeowners and tenants should immediately cease paying council tax and that Central Government should implement a fair replacement system, collected via Income Tax and VAT, based on a person’s ability to pay and on their consumption of goods and services.”²²⁰

In oral evidence to us, Peter Webb of the Campaign told us that the Balance of Funding review “should conclude that council tax should be abolished, that the raising of revenue should be separated from the accounting for spending, that local authorities should be financed from central taxes”.²²¹ Local authorities would become local administrative agencies for central Government: “I say that they should be responsible for spending the money, responsible for performance on delivery and spending and be accountable for the use of the revenue”.²²²

175. The 'IsItFair' Campaign has also argued that if local authority funding was collected centrally then the cost of collection would be reduced:

“By using existing systems, the only additional work required is a ring fencing mechanism that ensures that the extra tax collected is used entirely for local authority funding. A ring fencing mechanism is already in place (re extra tobacco duty for NHS in 2002 budget), so this could be extended.”²²³

176. The obvious objection, that centrally raised and determined funding would destroy any meaningful accountability of local government to a local electorate, is answered by the Campaign:

“Currently, central government provides, on average, 75% of local authority funding, and dictates up to 80% of local authority expenditure. There is very little room for movement here.”²²⁴

Yet the Campaign seems to want to preserve local decision-making: “[...] there will always be a requirement for local decisions and central government cannot do this”.²²⁵ It is not clear what form this will take. The Campaign has made outline proposals:

²²⁰ LGR B/P 07 2003 'Local Authority Funding A Fairer Tax Raising System' 'IsItFair' Campaign p5

²²¹ Q 340 [Mr Webb, Chairman, Surrey Tax Action Group]

²²² Q 344 [Mr Webb, Chairman, Surrey Tax Action Group]

²²³ LGR B/P 07 2003 'Local Authority Funding A Fairer Tax Raising System' 'IsItFair' Campaign p20

²²⁴ LGR B/P 07 2003 'Local Authority Funding A Fairer Tax Raising System' 'IsItFair' Campaign p20

²²⁵ LGR B/P 07 2003 'Local Authority Funding A Fairer Tax Raising System' 'IsItFair' Campaign p22

“Local authorities will continue to draw up budgets in consultation with central government (who dictate the majority of spending requirements). These budgets, ideally, should cover three to five year periods. It is recommended that each local authority appoints a representative group of individuals from its area, who can review and challenge the budget requirements. The budgets may then be ratified at either an open public meeting, or via a local referendum. [...] If this process were adopted, then central government would find it hard to argue that the budget is unreasonable. Furthermore, if the local people are included, and endorse the local budget, then any adjustment required to the national rate of VAT and Income Tax to fund this, should not be an issue.”²²⁶

177. There are patent defects in these proposals, in principle and in practice: quite simply, they reverse a pattern of local democracy and local accountability which have served this country well for over a century. Although the ‘IsItFair’ Campaign rightly highlights the problems faced by pensioners and those on low incomes, the Committee believes that these issues can be adequately addressed by changes to the council tax benefit system, and greater responsibility for revenue raising for local government. The Committee fundamentally disagrees with the Campaign’s assertion that the best way of dealing with the current problems associated with the council tax is to remove the power to raise revenue from the local level.

Options for local taxation

178. In their paper for the Balance of Funding review the Local Government Association argued that it was important for local accountability that local authorities be given greater freedom to raise revenue to fund local policy initiatives. They pointed out that

“The argument that local government should have access to locally-set taxes and charges for services is underpinned by Article 9 of the European Charter of Local Self Government, which stipulates that “part at least of the financial resources of local authorities shall derive from local taxes and charges.”²²⁷

In their evidence to this inquiry the Local Government Association outlined a range of sources, termed the ‘basket of taxes’ that might provide alternative sources of revenue, some of which will be discussed below. However as the Local Government Association explained, they did not expect the ‘basket of taxes’ proposal to provide a complete answer to the balance of funding problem. Cllr Chalke, Leader of the Conservative Group at the Local Government Association, stated that:

“I do think that some of those issues will not raise very much money but can actually have policy direction, for example, charging utilities for lane rental when they are digging up roads [...] That has an advantage for traffic flow and cost to industry; so there is a policy advantage and I can accept that.”²²⁸

The Economic Secretary to the Treasury told us:

²²⁶ LGR B/P 07 2003 ‘Local Authority Funding A Fairer Tax Raising System’ ‘IsItFair’ Campaign p23

²²⁷ BoF (23) April 2004 ‘Other taxes and Charges’ LGA p1

²²⁸ Q 806 [Cllr Chalke, Leader of Conservative group, Local Government Association]

“When the balance of funding review group looked at the proposals, one thing was clear, that none of them would make a significant contribution to altering the balance of funding between local and national.”²²⁹

The level of revenue generated locally would not be so significant as to require a system of equalisation. As Sir Jeremy Beecham, former Chairman of the Local Government Association, argued:

“You do not want to over-complicate the system, but it is likely to be marginal in the event and I would not have thought it was necessary to take equalisation into account with these subsidiary taxes.”²³⁰

The Local Government Information Unit stated that,

“Local optional taxes should be outside any equalisation system; there would be little point in raising them if they were to be taken account of in grant assessment. However, optional taxes are bound to be marginal—in themselves they can not significantly change the balance of funding.”²³¹

However, the Audit Commission pointed out that there are some local taxes that might have a more significant impact on the balance of funding.

“Congestion taxes, workplace parking taxes or tourist taxes would only affect local government income at the margins and would not significantly change the balance of funding. This is not the case with local sales taxes or local income taxes. These could have a fundamental impact on the balance of funding. A key consideration in the introduction of new taxes of this kind would be the extent to which they were open and transparent, and increased accountability to local citizens.”²³²

179. Locally raised taxes used locally have strong attractions, and could have policy as well as fiscal advantages. Professor Bramley argued that local taxes:

“[...] are something that can develop incrementally and they may be quite helpful to certain local authorities in relation to certain types of problem they face, particularly on the capital side and the need to facilitate certain types of development, for example, transport infrastructure.”²³³

Andrew May from the South West Regional Development Agency told us:

“[...] we have a wonderful physical environment, which is one of the main economic drivers of the region; people come because of the open spaces, because of Exmoor, Dartmoor, the national parks and so on [...] It does depend upon this thorny issue of

²²⁹ Q 667 [John Healey MP, Economic Secretary to HM Treasury]

²³⁰ Q 810 [Sir Jeremy Beecham, Leader of the Labour Group, Local Government Association]

²³¹ Ev 16 HC 402-II [Local Government Information Unit]

²³² Ev 58 HC 402-II [Audit Commission]

²³³ Q 75 [Professor Bramley, Heriot Watt University]

hypothecation of these taxes, that we would raise and spend them wholly locally on specific objectives, not lose them into some general pool of revenue.”²³⁴

180. A range of local taxation options would also create more choice for local authorities, as Dan Corry from the New Local Government Network stated in his evidence to the Committee: “I think at the very least local government needs, at the end of the Balance of Funding Review and so on, to end up with more choice and a spread of taxes”.²³⁵ He further suggested that:

“If a local authority had a number of taxes it would have to explain it to its local taxpayers. You could have systems where you said that certain taxes could only be brought in locally if there had been some kind of a referendum.”²³⁶

This could increase the role of local people in the decision-making process of local authorities, and would allow the local electorate a veto over unpopular and expensive projects. On the flipside it would also allow local populations to elect to pay more for an enhanced local service.

181. Some witnesses were cautious. Guy Palmer from the New Policy Institute told us:

“I think one of the worries with all this basket of taxes and so forth is that you introduce a myriad of what are actually very small taxes which does not achieve anything for anybody and merely confuses the issue.”²³⁷

The British Chamber of Commerce was reluctant to endorse any new revenue raising powers for local government without a secure system of checks and balances:

“[...] localising other taxes such as vehicle excise duty, sales taxes, stamp duty, and land value tax are unnecessary. The desire to increase local power is understandable from an organisation representing local politicians. However, there is little accountability at present at local level. Without an increase in scrutiny of local authorities and a larger say for business there is no mechanism for local politicians to take responsibility for their actions in this field. We therefore do not support greater powers for those who do not wish to accompany them with greater transparency and accountability.”²³⁸

182. We believe that any decisions about new taxes should be taken at the local level. As these taxes will be fairly revenue low, there should be safeguards put in place to protect local authorities from any cut in central grant, if they choose not to raise local revenue in this way. The important point is the existence of local flexibility and accountability of local authorities to their electorate for the decisions they take.

²³⁴ Q 335 [Mr May, Policy Advisor, South West Regional Development Agency]

²³⁵ Q 35 [Mr Corry, Director, New local Government Network]

²³⁶ Q 36 [Mr Corry, Director, New local Government Network]

²³⁷ Q 38 [Mr Palmer, Director, New Policy Institute]

²³⁸ Ev 28 HC 402-II [British Chambers of Commerce]

Fees and Charges

183. The Local Government Act 2003 gave powers to central Government to grant local authorities the power to charge for particular services. Sir Jeremy Beecham, of the Local Government Association, told us:

“There is scope to do more, but I am not sure we have actually yet got the Order which would facilitate the trading. The department has not actually as yet pressed the Go button on that. It will take time to develop. Although this is significant in the long term, it is more significant in policy than in revenue terms. We would not see that as making a huge difference to the balance of funding and the capacity of authorities will vary quite markedly.”²³⁹

In their written evidence to the Committee, Wandsworth Council identified that

“The other sources of local income, fees and charges, are significant, amounting to about two-thirds of the yield of council taxes. But, though they are described as local income, most fees and charges are tightly constrained by Government. Local authorities have no general power to make charges. Some tariffs are prescribed by Government, many charges must be determined in accordance with detailed Government guidance, and charges for discretionary services must not exceed the cost of provision.”²⁴⁰

184. Fees and charges can be used to influence behaviour. The Local Government Association noted:

“Extending powers to charge in a wider range of areas, for example graffiti removal, CCTV, home energy services, could generate more income for some local authorities. It would be necessary to consider the political sensitivity of charging for some services and the regressive nature of charging.”²⁴¹

They further argued that,

“For taxes and charges that are characterised by dual objectives, namely charging for waste services, utilities street works, road use and taxes on plastic bags, their likely minimal/limited revenue potential raise questions on their relevance in the context of the attempts to shift the balance of funding.”²⁴²

The Local Government Association advise caution with the use of fees and charges. They warn that “charging does, however, raise serious equity concerns, given its regressive nature, particularly when applied to non-discretionary services”.²⁴³

185. We believe that local authorities should have the opportunity to increase their income by extending more fees and charges to a wider range of services. Local

²³⁹ Q 813 [Sir Jeremy Beecham, Leader of the Labour Group, Local Government Association]

²⁴⁰ Ev 19 HC 402-II [Wandsworth Council]

²⁴¹ Ev 25 HC 402-II [Local Government Association]

²⁴² BoF(23) April 2004 ‘Other taxes and Charges’ LGA p18

²⁴³ BoF(23) April 2004 ‘Other taxes and Charges’ LGA p1

authorities should also be allowed to make profit from services. All local authorities should be required to have in place a socially inclusive fees and charges remission scheme.

Land Value Tax

186. Proponents of land value tax argue that if it were introduced there would be no need to retain the existing business rate and council tax, and that ultimately it could replace all taxation. The proponents argue that, “this tax would be fair, would be impossible to avoid, and would have beneficial economic and social outcomes”.²⁴⁴ The positive elements of the tax are outlined as:

- “Administration is straightforward and valuation costs are reduced.
- The tax is difficult to avoid or evade
- Because the tax is tied to property, it can be localised and applied to any form of local or regional government structure.”²⁴⁵

187. A principal drawback of the tax is that it would penalise people who live on low incomes but are asset rich in property terms, most of whom are pensioners. Proponents of the land value tax state that “Single occupancy relief would be phased out: this encourages under-occupation and is vulnerable to avoidance and evasion. [...]”.²⁴⁶ In addition as Paul Woods from the Association of North East Councils identified:

“The concern of a land value tax is that we are talking about a completely new tax, where with business rates you are just bolting something onto an existing, well-known tax system which we know can operate effectively.”²⁴⁷

Proponents admit that it would not be a quick fix to the balance of funding problem but suggest that it could be an “attractive option for 2009”.²⁴⁸ We believe that there are better ways to improve the current system than a land value tax.

Local Sales Tax

188. As with land value tax a local sales tax could raise substantial revenue for local authorities. But it could have dramatic implications. As Sir Jeremy Beecham, from the Local Government Association, identified:

“A local sales tax could have a significant effect; unfortunately it would not be a progressive effect. I would not support it because it would be regressive and in a small country there would be boundary problems and so on.”²⁴⁹

²⁴⁴ Ev 17 HC 402-II [Local Government Information Unit]

²⁴⁵ LGR B/P 10 2004 ‘Options for Local Government Finance’ Henry Law p.10

²⁴⁶ LGR B/P 10 2004 ‘Options for Local Government Finance’ Henry Law p.14

²⁴⁷ Q 584 [Mr Woods, City Treasurer, Newcastle-upon-Tyne City Council and Finance Officer, Association of North East Councils]

²⁴⁸ LGR B/P 13 2003 ‘New Localism New Finance’ Prof. Iain McLean & Dr. Alistair McMillan p25

²⁴⁹ Q 806 [Sir Jeremy Beecham, Leader of the Labour Group, Local Government Association]

In written evidence, the Local Government Association also questioned its legality under European Law:

“It is likely, however, to be complex and costly to administer, and does not appear to have significant political support. Furthermore, a local sales tax is likely to contravene Article 33 of the Sixth VAT Directive, preventing EU member states from introducing turnover taxes.”²⁵⁰

189. Henry Law, a proponent of the land value tax, suggested, “Differentials in local sales tax rates would promote cross-border and mail-order shopping”.²⁵¹ This could potentially lead to new types of business developing in particular areas of the country, but only if a number of authorities were imposing a significant sales tax. If that were the case, consumers could in many circumstances vote with their feet and shop over a boundary: as Lucinda Turner from the CBI put it, “[...] sales tax would be a very difficult thing in this country because of the boundary issue and the ease of moving from one retail area to another.”²⁵²

190. Despite being prima facie attractive, we have doubts about the legal and practical possibilities of a local sales tax. We recommend that the Government investigate the implications of introducing such a tax in order to inform local government decision making.

Congestion Charge

191. Congestion charging is one example of a fiscal instrument designed to change behaviour in a particular local area. It allows local authorities to address the problem of congestion in their area, and provides the opportunity for any revenues generated to be reinvested in the local transport system. As Lucinda Turner from the CBI identified:

“In terms of congestion charging, something we have supported in principle, we have supported it mainly as a mechanism to target congestion rather than specifically as a revenue-raiser.”²⁵³

Andrew Sugden from the Chamber of Commerce in the North East told us: “[...] but there may be some very locally specific circumstances where elements such as congestion charging would be totally appropriate, and where those revenues were to be used or hypothecated for public transport improvements”.²⁵⁴

192. The Local Government Association warned that local authorities might continue to be reluctant to implement congestion charging schemes:

“It is worth noting however, that although power to levy charges in this area was given to the GLA and local authorities in 1999-2000 respectively, to date, no

²⁵⁰ Ev 25 HC402-II [Local Government Association]

²⁵¹ LGR B/P 10 2004 ‘Options for Local Government Finance’ Henry Law p.9

²⁵² Q 646 [Ms Turner, Head of Infrastructure, Confederation of British Industry]

²⁵³ Q 646 [Ms Turner, Head of Infrastructure, Confederation of British Industry]

²⁵⁴ Q 497 [Mr Sugden, Director of Policy, Chamber of Commerce in the North East]

authorities levy workplace parking charges and only London and Durham have introduced congestion charging.”²⁵⁵

193. We recommend that local authorities consider the experience of congestion charging in both London and Durham and in the light of this reflect on its potential usefulness in their area. However, the most important point is that local authorities should retain the option to implement congestion charges where appropriate to their area.

Workplace Parking charge

194. Workplace parking charges are another mechanism where by local authorities might seek to solve the problems of congested roads in metropolitan areas. Andrew Sugden of the Chamber of Commerce in the North East told us that:

“[...] on some of the proposals around workplace car parking charges, there is a very persuasive argument about reducing the number of people who use their cars to travel to work and simply park outside the office all day and then drive home, but at the same time the proposals are seen as very punitive without any incentive in terms of using that taxation for improved public transport networks.”²⁵⁶

Lucinda Turner from the CBI argued that:

“[...] we believe it would have very limited impact, given that it targets only a particular section of road-users, and it is likely that if they moved off that road space the road space would soon fill up with those who were not paying it.”²⁵⁷

She concluded that:

“[...] we are fundamentally opposed to the work place parking levy as it is simply a tax, there is no effort to incentivise more environmentally friendly ways to get to work. It is a blunt instrument that will not achieve any gainful progress in reducing pollution or congestion.”²⁵⁸

195. Local authorities could choose to invest income from workplace parking charges in local transport infrastructure as they can from congestion charging: there is no good reason to limit their freedom to do so.

Tourist Tax

196. A tourist tax as a means of raising revenue is an attractive option in various regions including the South West. The Local Government Association argued: “Levying a tourist tax on bed nights by domestic and foreign overnight visitors would be worthwhile in some

²⁵⁵ Ev 25 HC 402-II [Local Government Association]

²⁵⁶ Q 497 [Mr Sugden, Director of Policy, Chamber of Commerce in the North East]

²⁵⁷ Q 647 [Ms Turner, Head of Infrastructure, Confederation of British Industry]

²⁵⁸ Ev 27 HC 402-II [British Chambers of Commerce]

areas, being relatively easy to implement and funding services used by tourists.”²⁵⁹ Peter Lacey from Somerset Association of Local Councils stated:

“My members would say that the parishes pick up a significant part of the tourist costs in terms of local provision of public conveniences, in terms of tourist information centres, in terms of all sorts of support that the parishes give which is not related to the people of the parish who pay the tax. It is related to the businesses of the parish.”²⁶⁰

But he also warned that a bed tax could be a serious disadvantage to those who run small bed and breakfast businesses, potentially forcing these businesses to close. “I do not see a hotel as the problem; it is the bed and breakfast that is the problem. That is a significant part of the market.”²⁶¹ Francis Cornish from South West Tourism noted:

“Our research has shown that for every pound the tourist spends only 21p is spent on accommodation. You are hitting only part of the target with a bed tax. [...] About 45% of the £8.3 billion per year which visitors spend in the south west is spent by day visitors, people who do not stay in hotels.”²⁶²

197. He also warned of the potential disincentive to tourists:

“For the average American family of four going to any of 52 prime cities in the world, the tax burden on London is the second highest of the 52. In other words, there are 50 places cheaper in tax terms to go to. In terms of competition, the tourism business, hotels, restaurants, catering for tourists, the attractions or whatever in the south west are already facing an uncompetitively high rate.”²⁶³

Andrew Sugden from the North East Chamber of Commerce was also cautious:

“Tourism is growing in the north east and we are very proud to see it grow at the rate it has, but at the same time it is very much emerging and to threaten that by levying additional charges on tourists is something we would feel very nervous about.”²⁶⁴

198. The Committee believes that a tourist or bed tax could generate funds to reinvest in services for tourists, thus bringing fringe benefits for local people and businesses.

199. Overall we believe that local authorities should have the opportunity to introduce a ‘basket of local taxes’. However, it is important to acknowledge that they will not raise enough revenue to replace the existing council tax and that they should be seen as nothing more than a supplement. It should also be acknowledged that the primary role of such local taxation should be to generate behavioural change, i.e. a congestion charge should lead to reduction in car usage, rather than just seek to generate revenue.

²⁵⁹ Ev 25 HC 402-II [Local Government Association]

²⁶⁰ Q 292 [Mr Lacey, Chief Executive, Somerset Association of Local Councils]

²⁶¹ Q 293 [Mr Lacey, Chief Executive, Somerset Association of Local Councils]

²⁶² Q 326 [Mr Cornish, Chairman, South West Tourism]

²⁶³ Q 301 [Mr Cornish, Chairman, South West Tourism]

²⁶⁴ Q 497 [Mr Sugden, Director of Policy, Chamber of Commerce in the North East]

9 The Way Forward

Timetable

We publish the indicative timetable below for implementation of our recommendations as an aid to the department, and a checklist against which we, or our successors in a future Parliament can assess progress in dealing with the issues we have raised.

Short Term

Recommendation
Numbers

Publication of 2005/2006 Revenue Support Grant settlement

- | | |
|---|----------------------------------------------------------------------------------------------------------------------------------------|
| 6 | Publication of further details of the basis of the current grant system. |
| 7 | Investigation of the feasibility of introducing a 3-year rolling programme of grants, drawing on lessons from the Scottish experience. |
| 9 | Ring-fenced grants to be no more than 10% of the total of central grant. |

Budget setting/rate-setting by local authorities in 2005

- | | |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 16 | Implementation of strategy to raise public confidence in council tax and [eventual] effects of revaluation. |
| 23,26 | Removal of Cap on business rates: 20% floor on contribution of business rate to total local authority revenue: constraints on increases in rate. |
| 27 | Identification of best practice on council tax billing information, and guidance to all local authorities. |
| 19 | Re-branding of council tax benefit. |
| 15,16 | During 2005, begin preparation for the introduction of expanding banding scale, revised multipliers within the scale, and regional or sub-regional banding, following modelling and consultation |

Medium Term

Recommendation **By the end of 2005**
Numbers

- 8 Ending of most power of capping.
- 10 Reconsideration of the use of ring-fencing and passporting.
- 12, 21, 31 Research and investigation into (a) reduction of inspection regimes on local authorities (b) feasibility of a local income tax (c) investigation into the implications of a local sales tax.

By April 2006

- 23, 25 Localisation of business rates: mechanism for preventing excessive annual increases: mechanism for limited distribution.
- 35 Introduction of local authority power to raise revenue from the “basket of taxes”.

Long Term

Recommendation **At the time of the 2007 revaluation**
Numbers

- 14, 15 Introduction of expanding banding scale, revised multipliers within the scale, and regional or sub-regional banding, following modelling and consultation

At time of 2007 council tax billing

- 16 Identification on bills of reasons for charges.

Conclusions and recommendations

Introduction: Balance of Funding

1. We commend the ODPM for its commitment to transparency on the progress of the review and for making a range of working papers publicly available, including the steering group minutes. (Paragraph 9)
2. Enhancing the accountability of local authorities to the people they serve is at the heart of the balance of funding debate. (Paragraph 14)

Gearing

3. The Committee is convinced that gearing has a negative impact on local authorities by distorting accountability, magnifying any weaknesses in the formula grant system and making the entire system less clear. It was the major factor in the 12.9% average increase in council tax bills in 2003-04. The ODPM has confirmed that there is no evidence that gearing has any positive effects on efficiency. (Paragraph 40)
4. It is clear that Government grant can be significantly reduced from its present level and still fully meet its functions of equalisation and meeting national objectives through ring-fencing. Revenue Support Grant of £27 billion in 2004-05 is well above the level needed for equalisation. Plans to cut ring-fencing will mean a greater proportion of grant is paid through Revenue Support Grant. We conclude that the only purpose of keeping grant so much higher than necessary is to have a greater control of local authority expenditure, as a tool of macroeconomic policy. While economic stability is a legitimate goal, the relatively marginal effect of small changes in local authority expenditure within the context of the whole economy and negative impact of gearing on local authorities leads us to recommend that central Government should have control only over the grant it needs to meet the goals outlined above. Local authorities should have control over a much greater proportion of their income, at least 50%. Our proposals for the taxes which should fall under local government control are outlined later in this report. We accept the Minister for Local and Regional Government's argument that equalisation means that some gearing effect will always be part of the system, but the changes we propose aim to reduce this and its distorting effects. A shift in the balance of funding of the order of our recommendation would make the system significantly more acceptable and transparent. (Paragraph 50)
5. The Government needs urgently to clarify its plans for funding for schools. (Paragraph 51)

Other grant issues

6. We recommend that the ODPM publishes details of the estimated cost pressures for each local authority service. We accept that much of the detail is likely to be technical, but summary information could spell out at a national level what funding had increased by, what service-specific inflation was predicted to be, what

assumptions about efficiency improvements have been made and hence what remains for actual service improvements. (Paragraph 58)

7. There would be obvious advantage in a three year rolling programme of grants for local authorities. It would enable authorities to publish at least indicative budgets for the same period, and associated local tax rates. The Spending Review system in central Government already provides this element of certainty and predictability. A similar scheme already operates in Scotland. We would in principle like to see the practice of three year assured funding proposed for school budgets extended to all local service funding. If this is not done it is important that the ODPM and Dfes explain the relationship between education and other local authority spending and whether all education funding is effectively going to be ringfenced. We recommend that ODPM inquire into the lessons to be learned from Scotland, and investigate appropriate safeguards for its introduction in England. (Paragraph 62)

Capping

8. The Committee acknowledges that the Government wants to ensure that its national policy agenda is followed at local government level, and in particular its macro-economic policies, although we have expressed our conviction that variations in local government expenditure have little macro-economic effect. We believe that this would be more constructively achieved through discussions within the Central-Local Partnership than by capping. It is much more appropriate for local authorities to be held to account for local decisions, including the level of local taxation, through the ballot box. If the Government insist on retaining capping, capping should be selective, rather than general and selected local authorities should be given a year in which to meet the requirements. (Paragraph 70)

Passporting and Ring-fencing

9. Despite the 8 July announcement by the Secretary of State for Education and Skills, we recommend that the Government ensure that its target of reducing a ring-fenced grant to 10% of overall grant in 2005/6 is met. The Government should provide an annual statement of its performance and intentions with regard to ring-fencing and passporting in future years. (Paragraph 81)
10. We recommend that the Government reconsider the use of ring-fencing and passporting, and acknowledge the potential role of the local electorate in terms of setting the local agenda. Mechanisms such as the central-local partnership can be used to ensure minimum standards. However, local authorities should be given the freedom to implement local priorities, and be judged for these decisions by the local electorate. (Paragraph 82)
11. The Government should allow local authorities to make spending decisions, and take the consequences for these decisions at the ballot box. If Central Government wishes directly to control education funding it should consider funding education directly. If it believes that education is an important and integral part of local government services and funding it should set minimum standards and then allow local

discretion. The present situation lacks clarity and transparency as to where responsibility lies. (Paragraph 83)

Best Value and the CPA

12. The Committee recommends that the Government dramatically reduce their inspection regimes on local authorities. In particular the Government should consider the concerns of smaller local authorities and ensure their inspection regimes are proportionate to their size and responsibility. The Government should continue to free “good” and “excellent” authorities from some inspection and plan-making regimes and should ensure the inspection framework is appropriate to the improvement needed in “poor” and “weak” councils. (Paragraph 92)

Council Tax

13. We recommend that council tax should be retained, provided it and council tax benefit are reformed in line with our other recommendations in this report in order to address the shortcomings of the current arrangements. In addition, local authorities need greater freedom in the use of their other sources of revenue to ensure that council tax payers are not exposed as at present to large increases in annual bills. (Paragraph 100)
14. We recommend that, in principle, banding should be expanded at either end of the scale with divisions in what are now bands A, G and H. We also recommend that multipliers should be changed to ensure that the new bands are broadly in line with household income, resulting in a wider range of liabilities from the present ratio of top to bottom bands of 3:1. All these reforms should be implemented at the same time as revaluation, in 2007, to avoid unnecessary disruption. (Paragraph 115)
15. We recommend that consideration be given to regional and sub-regional banding being introduced to address any inequalities caused by revaluations and changes to the banding arrangements but not addressed by equalisation. (Paragraph 119)
16. If council tax is retained, then the ODPM should, at the earliest possible date, draw up and implement a strategy with local authorities to improve public confidence in council tax and their knowledge of the impact of revaluation. This should not wait for detailed information on property values, which can be communicated later, but concentrate on the general effects of revaluation and how council tax has been reformed to address its failings. We also recommend that, as suggested by the Audit Commission, council tax bills in 2007 should separately identify changes in individuals’ bills that are the result of i) local spending decisions, ii) revaluation and iii) reforms to council tax. (Paragraph 123)
17. We welcome the Minister’s commitment to a 10 year domestic revaluation cycle. (Paragraph 124)
18. Whatever other changes are made to council tax benefit, the Government needs to give a higher priority to increasing its take-up by a number of readily identifiable target groups, in particular pensioners, and low-income households. It is unfortunate

that the central Government is saving over £1.2 billion of unpaid council tax benefit every year, and that 2 million households are paying more than they should to local government. (Paragraph 130)

19. We recommend that in response to this report the Government set out the nature of the inquiries it has set in motion into conversion of council tax benefit to a tax credit, any obstacles identified so far, and a timetable for possible implementation. We are strongly of the view that this is the way forward in making a property tax a more acceptable means of raising local revenue. We do not, however, underestimate the time and effort required to implement such a change, not least at local level. As an interim measure, and a further means of improving take-up, we therefore recommend that council tax benefit be re-branded as council tax discount or rebate, more accurately reflecting its true nature. (Paragraph 132)
20. The Government should do further work to ensure equity release schemes, or other means of deferring payment, are available. (Paragraph 133)

Review of Local Income Tax as an alternative

21. The introduction of a local income tax in 1976 would have been a leap in the dark, which ahead of new technology would have created acute administrative problems for local government. Since then new technology, and a scaling down of the plan for local income tax to that suggested by CIPFA, has created a system that might work. Nevertheless, the evidence is not remotely persuasive. Administration would be costly. There is still far too little known about the practical implications including the cost, redistribution effect, impact on tax payers, including first time buyers, and where people choose to live. It would be unwise to pursue implementation of a local income tax before detailed research on these areas had been undertaken. (Paragraph 143)

Business Rates

22. In the Committee's view it would be both practical and sensible to halt the decline in the proportion of local revenue which comes through business rates. (Paragraph 155)
23. The Committee therefore recommend that the cap which prevents business rates increasing by more than the rate of inflation is removed. Irrespective of whether business rates remain at a uniform national rate set by central government or are relocalised and set by local authorities, the Committee believe that the proportion of local government revenue which is raised nationally through the business rate would be fairer at a level of 25%. (Paragraph 156)
24. The Committee therefore recommends that the Government returns business rates to local authority control as soon as possible, but no later than 1 April 2006. In addition, the proportion of local government revenue derived from business rates should account for at least 20% of total local government revenue. (Paragraph 160)
25. When business rates are restored to local control, the Committee recommends that the Government put in place a mechanism to prevent excessive increases by, for

example, limiting the annual increase in business rates in an area to no more than the annual percentage increase in the council tax in the area. (Paragraph 166)

26. For as long as the Government continues to set a national rate in the pound but with annual increases greater than inflation, the Government should consider:
- enshrining in primary legislation the maximum rate of increase above inflation that can be imposed; and
 - announcing any increases above inflation as part of a three year rolling programme. (Paragraph 167)

Different tiers of Local Government

27. The Committee believes that the complicated nature of sub-national service provision and service cost needs further clarification, and that the Government should review the information that accompanies council tax bills. Whatever judgement is made on implementing a revised council tax, the Committee believes that the Government should survey authorities to gauge current best practice and feed these findings back into the central-local partnership for discussion, before the next council tax bills are issued. (Paragraph 171)
28. The laudable desire of Parish councils for expenditure directly attributable to their activities to be known to local electors, and to be raised from local taxation, is a further strong argument for a local tax base and local taxes. (Paragraph 173)

Alternative means of raising local revenue

29. We believe that any decisions about new taxes should be taken at the local level. As these taxes will be fairly revenue low, there should be safeguards put in place to protect local authorities from any cut in central grant, if they choose not to raise local revenue in this way. The important point is the existence of local flexibility and accountability of local authorities to their electorate for the decisions they take. (Paragraph 182)
30. We believe that local authorities should have the opportunity to increase their income by extending more fees and charges to a wider range of services. Local authorities should also be allowed to make profit from services. All local authorities should be required to have in place a socially inclusive fees and charges remission scheme. (Paragraph 185)
31. Despite being prima facie attractive, we have doubts about the legal and practical possibilities of a local sales tax. We recommend that the Government investigate the implications of introducing such a tax in order to inform local government decision making. (Paragraph 190)
32. We recommend that local authorities consider the experience of congestion charging in both London and Durham and in the light of this reflect on its potential usefulness in their area. However, the most important point is that local authorities should

retain the option to implement congestion charges where appropriate to their area. (Paragraph 193)

33. Local authorities could choose to invest income from workplace parking charges in local transport infrastructure as they can from congestion charging: there is no good reason to limit their freedom to do so. (Paragraph 195)
34. The Committee believes that a tourist or bed tax could generate funds to reinvest in services for tourists, thus bringing fringe benefits for local people and businesses. (Paragraph 198)
35. Overall we believe that local authorities should have the opportunity to introduce a 'basket of local taxes'. However, it is important to acknowledge that they will not raise enough revenue to replace the existing council tax and that they should be seen as nothing more than a supplement. It should also be acknowledged that the primary role of such local taxation should be to generate behavioural change, i.e. a congestion charge should lead to reduction in car usage, rather than just seek to generate revenue. (Paragraph 199)

Formal minutes

Monday 12 July 2004

Members present:

Andrew Bennett, in the Chair

Sir Paul Beresford

Mr John Cummings

Mr Clive Betts

Chris Mole

Mr Graham Brady

Mr Bill O'Brien

Mr David Clelland

The Committee deliberated.

Draft Report [Local Government Revenue], proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 152 read and agreed to.

Paragraph 153 read.

Question put, That the paragraph stand as part of the Report.

The Committee divided.

Ayes, 5

Noes, 2

Mr Clive Betts

Sir Paul Beresford

Mr David Clelland

Mr Graham Brady

Mr John Cummings

Chris Mole

Mr Bill O'Brien

Paragraphs 154 to 156 read and agreed to.

Paragraph 157 read.

Question put, That the paragraph stand as part of the Report.

The Committee divided.

Ayes, 5

Noes, 2

Mr Clive Betts
Mr David Clelland
Mr John Cummings
Chris Mole
Mr Bill O'Brien

Sir Paul Beresford
Mr Graham Brady

Paragraphs 158 to 162 read and agreed to.

Paragraph 163 read.

Question put, That the paragraph stand as part of the Report.

The Committee divided.

Ayes, 5

Noes, 2

Mr Clive Betts
Mr David Clelland
Mr John Cummings
Chris Mole
Mr Bill O'Brien

Sir Paul Beresford
Mr Graham Brady

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committee (reports)) be applied to the Report.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House. - [The Chairman]

[The Committee adjourned until Nine o'clock on Tuesday 13 July 2004

Witnesses

Tuesday 27 April 2004

Mr Peter Kenway, Director, and **Mr Guy Palmer**, Director, New Policy Institute

Mr Nicholas Boles, Director, Policy Exchange

Mr Dan Corry, Director, New Local Government Network

Professor Glen Bramley, Heriot Watt University, Edinburgh

Professor Tony Travers, London School of Economics

Mr Ray Shostak, Public Services Directorate, and **Mr Andrew Lewis**, Head of Tax Policy Team, HM Treasury

Ms Lindsay Bell, Director of Local Government Finance, **Mr Andrew Allberry**, Head of Taxation, Valuation and General Policy Division, Local Government Finance Directorate, and **Mr Robert Davies**, Head of Modernisation and Grant Distribution Division, Local Government Finance Directorate, Office of the Deputy Prime Minister

Tuesday 11 May 2004

Ms Cathy Bakewell, Leader of the Council, and **Mr Chris Bilsland**, Corporate Director (Treasury), Somerset County Council

Mr Peter Lacey, Chief Executive, Somerset Association of Local Councils

Mr Nick Lewis, Director of Finance, and **Mr Andrew May**, Policy Adviser, South West Regional Development Agency

Mr Francis Cornish, Chairman, South West Tourism

Mr Peter Webb, Chairman, Surrey Tax Action Group

Mr Albert Venison, Chairman, Devon Pensioners' Action Forum

Mr Brian Jaye

Ms Christine Melsom and **Mr Mike Schofield**, Is It Fair? Campaign

Tuesday 18 May 2004

Mr Chris Pond, a Member of the House, Parliamentary Under-Secretary of State, Department of Work and Pensions

Mr Phil Shakeshaft, Head of Strategy, One North East Regional Development Agency

Mr Tim James, Area Manager, Tyne & Wear, and **Mr Andrew Sugden**, Director of Policy, Chamber of Commerce in the North East

Tuesday 25 May 2004

Mr Paul Woods, City Treasurer, Newcastle-upon-Tyne City Council, and Finance Officer, Association of North East Councils, and **Councillor Bob Gibson**, Leader, Stockton-on-Tees Borough Council, Chairman, North East Regional Assembly and Chairman, Association of North East Councils

Mr Michael Roberts, Director of Business Environment, **Lucinda Turner**, Head of Infrastructure, and **Mr Simon Parker**, Senior Policy Adviser, Public Services Directorate, Confederation of British Industry (CBI)

Wednesday 23 June 2004

Mr John Healey, a Member of the House, Economic Secretary, HM Treasury

Mr David Miliband, a Member of the House, Minister of State for School Standards, Department for Education and Skills

Mr Nick Raynsford, a Member of the House, Minister of State for Local and Regional Government, Office of the Deputy Prime Minister

Sir Jeremy Beecham, Chairman and Leader of the Labour Group, **Mr Peter Chalke CBE**, Leader of the Conservative Group, **Mr Chris Clarke OBE**, Leader of the Liberal Democrat Group, and **Sir Brian Briscoe**, Chief Executive, the Local Government Association (LGA)

List of supplementary written evidence

Memoranda LGR 01 to LGR 23 published as HC 402-II on 22nd April 2004

British Retail Consortium (BRC) (LGR 24)
New Local Government Network (NLGN) (LGR 25)
Policy Exchange (LGR 26)
Supplementary Memorandum by Policy Exchange (LGR 26(a))
Professor Tony Travers (LGR 27)
Professor Glen Bramley (LGR 28)
South West of England Regional Development Agency (SWRDA) (LGR 29)
Supplementary Memorandum by the Somerset Association
of Local Councils (LGR 15(a))
Supplementary Memorandum by the South West of England
Regional Development Agency (SWRDA) (LGR 29(a))
Department for Work and Pensions (LGR 30)
Supplementary Memorandum by the Department for Work
and Pensions (LGR 30(a))
Land Value Taxation Campaign (LGR 31)
Tony Vickers (LGR 32)
Professor Iain McLean (LGR 33)
Supplementary Memorandum by the Office of the Deputy
Prime Minister (LGR 01(a))
Trevor Oakley (LGR 34)

Reports from the ODPM Committee since 2002

The following reports have been produced by the Committee since 2002. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2003–04

First Report	ODPM Annual Report and Accounts 2003	HC 102-I (<i>CM 6141</i>)
Second Report	Annual Report to the Liaison Committee	HC 221
Third Report	The Fire Service	HC 43-I (<i>CM 6154</i>)
Fourth Report	Coalfield Communities	HC 44-I (<i>CM 6265</i>)
Fifth Report	Decent Homes	HC 46-I
Sixth Report	Social Cohesion	HC 45-I
Seventh Report	Postal Voting	HC 400-I
Eighth Report	The Role and Effectiveness of the Housing Corporation	HC 401-I

Session 2002-03

First Report	Local Government Finance: Formula Grant Distribution	HC 164 (<i>CM 5753</i>)
Second Report	Annual Report to the Liaison Committee	HC 288
Third Report	Affordable Housing	HC 77 (<i>CM 3783</i>)
Fourth Report	Planning, Competitiveness and Productivity	HC 114 (<i>CM 5809</i>)
Fifth Report	Departmental Annual Report and Estimates	HC 78 (<i>CM 5841</i>)
Sixth Report	The Evening Economy and the Urban Renaissance: Interim Report [Responding to issues in the Licensing Bill]	HC 541 (<i>HC 750</i>)
Seventh Report	The Effectiveness of Government Regeneration Initiatives	HC 76-I (<i>CM 5865</i>)
Eighth Report	Planning for Sustainable Communities: Sustainable Communities in the South East	HC 77-I (<i>CM 5985</i>)
Ninth Report	Reducing Regional Disparities in Prosperity	HC 492-I (<i>CM 5958</i>)
Tenth Report	The Draft Housing Bill	HC 751-I (<i>CM 6000</i>)
Eleventh Report	Living Places: Cleaner, Safer, Greener	HC 673-I (<i>CM 5989</i>)
Twelfth Report	The Evening Economy and the Urban Renaissance	HC 396-I (<i>CM 5971</i>)