

---

## BALANCE OF FUNDING REVIEW: PAPERS FOR MEETING 3

### PAPER 12: SUMMARY REPORT OF RESPONSES TO PUBLIC CONSULTATION

---

#### **Background**

1. The Steering Group agreed in their 25 June meeting to start a consultation exercise on those local government finance issues that were within the remit of the Review.
2. On 16 July the Chair issued an open letter inviting interested parties to submit short papers. These included all local authorities in England. The deadline for papers was 30 September. The consultation was announced to both Houses of Parliament and to the press on 16 July. The letter was available on the ODPM website.
3. The invitation letter agreed by the Group contained an annex explaining the Review's terms of reference and explaining how it worked. It referred consultees to the Review papers and meeting notes publicly available on the website. It also suggested thirteen questions raised by the papers on which the Government and LGA would welcome views, though responses that did not look at these specific questions were also welcomed. It also sought views on specific options for change.
4. This paper has been prepared to give the Steering Group a broad view of the responses sent in. It does not attempt to set out every detail of every response.

#### **Headlines:**

- Over 200 responses from local authorities, members of the public and other organisations and individuals (including business, academics).
- The current system is generally seen as unaccountable due to complexity, lack of clear responsibility for services, and central government control.
- Most local authorities blame public confusion and low local election turnout at least partly on gearing, but other responses usually do not.
- Council tax in current form and at current levels is becoming unaffordable for those on fixed incomes, and is not buoyant enough.
- Equalisation is needed, but there are many concerns with current system.
- Range of important principles – particularly fairness and accountability, but also equalisation, predictability, sufficiency, buoyancy and collectability.
- Most councils want business rates re-localised, but business is opposed.
- Reformed council tax (rebanded, revalued, more progressive) and local income tax are both popular options – some would like both.
- Much interest in having a range of taxes, and in more money raised from smaller taxes (e.g. local sales tax, vehicle excise duty, trading, charging).

## Overview

5. The number of responses logged is 216. These can be divided roughly into three groups. Respondents are listed in Annex A.

### Group 1 - Local authorities

6. Almost two thirds (136) of the responses come from local authorities. Of these, some are voluntary groupings (e.g. the LGA, SIGOMA, Association of London Government), but most are from individual authorities. All different tiers and regions are represented, with particularly high levels of response from county and police authorities and northern cities.
7. At least half of this group explicitly support or provide responses that are broadly similar to the LGA's response, which argues that:
  - A successful local government finance system must be based on a range of principles (e.g. accountability, fairness, sufficiency, buoyancy).
  - Gearing is caused by the balance of funding and is a major problem.
  - Local election turnout is low for many reasons, which may include the current balance of funding.
  - Ring-fenced and specific grants blur accountability.
  - Council tax not fair (especially to pensioners), progressive or buoyant.
  - Local government doesn't have enough overall income to meet needs.
  - Local government should have access to more than one tax.
  - Funding different services in different ways impedes partnerships.
  - Poor accountability is not conducive to efficiency.
  - The Review should consider options including:
    - (i) relocalising business rates,
    - (ii) local income tax,
    - (iii) reforming council tax (e.g. make it more progressive, change the banding), and
    - (iv) looking at a range of other sources of income (e.g. local sales tax, charging and trading).
  - No change is not an option.
8. However, there are significant variations between authorities in the weight they give to individual issues or options. In many cases these may reflect the authority's tier, region, level of affluence and political control.
9. For example, responses show a range of views on gearing. Some (not necessarily the most highly geared, e.g. Oxfordshire County Council) say that it is the greatest problem they face. Others say it is less important than 'balance of control' issues (such as central government ring-fencing), or that the variation in gearing levels matters more than gearing itself, or that gearing can be a spur to efficiency. Equally, some councils support local income tax while others are highly opposed. Some consider accountability as the key principle of a local government finance system, while others thought several principles were of roughly equal importance.

10. However, this is not to deny that the majority of council responses show broad agreement on some issues. No responses dispute that there are serious accountability problems with a lack of clarity on how locally raised taxes are spent and by whom, and with central direction of local authority spending (e.g. via ring-fencing grant). All suggest that, at the least, council tax must be reformed if it is to be an acceptable tax, though some think it would be preferable to abolish it. None dispute the need for some central grant to equalise, though there is widespread dissatisfaction with aspects of the current equalisation system. Most argue that they should have a greater variety of sources of income, and that these should be buoyant. Most favour re-localising the business rate.
11. The following abbreviations are used for local authorities in this report: CC (County Council), BC (Borough Council), DC (District Council), MBC (Metropolitan Borough Council), LB (London Borough – before authority's name), PC (Parish Council) and PA (Police Authority). Counties are also referred to by their standard abbreviations, e.g. Hants for Hampshire.

Group 2: People on fixed incomes

12. The second group, totalling about 20% of responses (45), are members of the public on fixed incomes, usually pensioners concerned about the effect of council tax rises. Most are from rural areas, in particular Norfolk, Devon and Bedfordshire. This group does not include pensioners' organisations, which are listed in Group 3.
13. The majority view in this group is that recent council tax rises impacted far too heavily on those least able to pay, namely the 'asset-rich, cash-poor'. Many of this group want council tax to be abolished immediately, though some favour reforming it to make it progressive and protect pensioners. Most propose alternative tax options, usually an income tax based on the ability to pay – though not many specifically recommend a locally-set income tax. Some favour 'user' based taxes, such as a tourist tax or local sales tax, as they also see it as fair that those who use a service should pay. Many responses show frustration and cynicism with local and (to some extent) central government, in part due to lack of clarity over who is responsible for tax rises. Very few mention gearing, equalisation, freedoms and flexibilities or the balance of funding. A few advocate more capping or central government control, and there are some concerns about efficiency.

Group 3 - Other organisations and individuals

14. The final group, also totalling just over 15% of responses (35), comprises a mixture of organisations and individuals who do not fit into the other two groups. It includes responses from:
- Business (e.g. Federation of Small Businesses, Institute of Directors).
  - Other relevant organisations (e.g. CIPFA, Electoral Commission).
  - Think tanks / interest groups (New Policy Institute, Countryside Alliance).
  - The academic profession and individuals with a strong interest in these issues (e.g. INLOGOV).
  - Pensioners' groups (e.g. Surrey Tax Action Group, IsItFair, South East Older Peoples' Action Group).

15. It is not possible to generalise about this group's views, which are very varied. In some cases, they address only a single issue in great detail (e.g. equalisation), in others they suggest a re-ordering of the whole system from first principles. Many feel that improving accountability is vital, but not all see the level of locally raised taxation as the key issue. A sample of Group 3 responses is given in Annex B.

### **Responses to individual issues and questions**

16. This section examines views of respondents on the individual questions in the Invitation letter. The letter suggested thirteen questions derived from papers presented to earlier meetings of the Steering Group. Respondents were not required to answer the questions directly, and many responses include comments that do not fall naturally under a single question. This analysis will therefore group the questions under a number of issues:

- Serious problems with the local government finance system in England, and how to address them (Q.2)
- Key principles for a local government finance system (Q.3)
- How the balance of funding and gearing affect accountability (Q.1, 5, 9)
- Other accountability issues (Q.4, 6)
- The importance of the equalisation system (Q.7, 8)
- What issues (domestic/international) need more research (Q.10, 11)
- Whether Council Tax is adequate, can it be reformed and how, what other options we should consider (Q.12, 13)

#### *Is there a problem?*

*Q.2: Are there serious problems with the current local government taxation system, and if so, what are they? How can we best address them?*

17. All respondents answer that there are problems. However, there is a range of views on the extent and nature of these, and on what the priorities are. Three principal issues are mentioned.

18. First, council tax in its current form and at current levels is not acceptable and should be seriously reformed or abolished. Recent rises have been significantly above inflation, and are reaching the limits of affordability for pensioners and others on fixed or low incomes. Council tax is (partially) regressive and not based on the ability to pay. Also, it is not sufficiently buoyant to be the only variable income source for local authorities. Almost all responses from all groups considered this a key issue.

19. Second, 'gearing' distorts local authorities' accountability to their taxpayers because it is so complex and because it gives the impression to the public of huge council tax rises for limited service improvements. The level of gearing reflects the authority's balance of funding. On this basis, many responses argue that if more funding were raised locally and gearing were reduced, accountability would improve. However, others say that gearing is a comparatively minor problem, that it actually helps efficiency, or that it can be resolved by changes to the equalisation system without changing the balance of funding. Some deprived urban authorities say that it is the

variation in gearing levels that is the real problem, and changing the balance of funding would not be enough to resolve this.

20. Third, central government ring-fencing and pass-porting of grants and use of specific grants and targets can damage accountability and democracy. These prevent authorities exercising local choice and lead to confusion over who is responsible for a spending decision. Connected to this is the argument that local authorities are not sufficiently funded by Government, and therefore have to raise extra money to meet compulsory targets by raising the council tax or cutting services elsewhere, for which they are blamed. Most Group 1 responses make this point, and many argue that this 'balance of control' is more important than the 'balance of funding'. Some argue that the two are linked.
21. A number of other issues are mentioned. The most commonly raised are the general complexity of the system and difficulties with the equalisation system (see below). There are also issues around local government tiers (e.g. its complexity, precepting, and the role of parishes and regions), whether the system incentivises efficiency, and specific issues affecting rural areas, deprived areas, and London. For example, authorities in the South West argue that they are served unfairly by the grant system (e.g. South West LGA), and some London responses (e.g. London First) argue that it contributes much more revenue than it receives despite very high needs. Some authorities are also concerned about depletion of their resources (e.g. Telford and Wrekin BC).

### Key Principles

*Q.3: What do you consider the most important principles and objectives and why? What are the implications of your chosen priorities?*

22. Not all respondents give a list of their key principles (especially those from Group 2). The following principles are mentioned (in alphabetic order):
- Accountability – “there should be a clear relationship between local authorities and taxpayers through the local tax system, so that local taxpayers can see that the level of tax they pay makes a difference to the level of service they receive” (LGA). Some responses refer to this principle as ‘democracy’ or ‘autonomy’.
  - Administrative efficiency – keeping administrative costs low and collection rates up; tax should be easy to collect and hard to evade.
  - Choice – providing more choice and opportunity for taxpayers.
  - Efficiency – providing local authorities with an incentive to keep costs down while improving service. Also referred to as ‘value for money’.
  - Equalisation – having a system that equalises between needs and resources for authorities to prevent different amounts being paid in different areas for a similar level of service.
  - Fairness – taxes raised should be fair (and seen as fair) in their effect on individuals. This includes ‘affordability’, ‘acceptability’, and ‘popular perception’. A ‘fair’ tax is often seen as a progressive one (i.e. based

## BoF (12) – Summary Report of Responses to Public Consultation

on ability to pay), but some responses suggest an alternative definition - that a tax based on consumption of goods or services is 'fair', even if it is also regressive (e.g. local sales tax).

- Predictability / Stability – authorities must be assured of a stable source of income year on year in order to plan effectively.
- Sufficiency – there should be sufficient resources available for local authorities to secure delivery of services.
- Support for partnership working and new freedoms and flexibilities.
- Transparency – taxpayers should have access to and be able to understand the system. Also called 'openness' and 'simplicity'.
- Variety / buoyancy of income – authorities should have access to a range of sources of income, some of which are buoyant.

23. Some responses from Group 1 (e.g. the LGA, Leeds City) list a number of key principles without commenting on which is the most important, and most of these also stress the need for trade-offs. Others give priority to a single principle, while acknowledging that others matter too – principles chosen include fairness (e.g. Gloucs CC), accountability (e.g. Notts CC), and equalisation (e.g. Gateshead BC). There is also strong support for sufficiency, predictability/stability and variety, and all responses say that some equalisation is necessary.

24. Most responses from Group 2 are most concerned about fairness, which they usually define as whether a tax is based on the ability to pay. On this basis, they consider council tax in its current form and at its current levels very unfair. As many show concern and frustration about whom to hold accountable for tax rises, transparency and accountability may also be considered important. Some also think efficiency is of vital importance.

25. The principal messages from the varied Group 3 responses seem to be that: first, transparency and accountability are critical for the system as a whole, and second, whichever tax is chosen needs not only to be 'fair' but also to give the system an acceptable level of stability, buoyancy, ease of administration and sufficiency. Many responses argue for major changes to the equalisation system to make it more fair and effective, and some suggest that because no one tax source meets every criterion, it would be better to have a variety of tax sources.

### The Balance of Funding and Gearing:

*Q.1: Do you think that a change in the balance of funding would improve local government's accountability, efficiency, flexibility or other factors?*

*Q.5: Are the balance of funding and local election turnout linked (directly or indirectly)? If so, how? Can the link be proved, and how? Does it have different effects in different areas or over time?*

*Q.9: Is the restriction of local government's ability to raise taxes at will via 'gearing' a useful discipline or an undemocratic burden? Does it promote efficiency? Is gearing itself the problem, or its uneven distribution?*

26. Group 1 responses show a range of views on gearing. Most argue that gearing distorts accountability and is one of their main problems, and a few (e.g. Oxon CC) say that it ‘destroys’ or ‘prevents’ accountability. This is the main reason they give for the need to raise the level of local funding. However, a few (e.g. Darlington BC, Salford City) argue that gearing can sometimes act as a brake on council tax increases or as a spur to efficiency. Others (e.g. Knowsley MBC) argue that the uneven distribution of gearing is the issue rather than the gearing itself, especially in its effect on deprived areas. Changing the balance of funding would not resolve this problem, and a huge change would be required to have any discernible impact. They argue that a better means might be to make changes to the grant formula, and that the changes made in 2003/04 were helpful. But most local authorities agree that gearing is a serious problem for them, is extremely complex to explain and may also reduce efficiency.
27. There is also a range of views on why local election turnout is low. LGA argues that one reason for low turnout is that people do not feel their vote makes a difference and do not see a clear connection between their tax money and spending decisions. LGA quotes research by Professor John Gibson that argues that turnout fell at the same time as the balance of funding in the early 1990s. On this basis, some authorities argue that there is a direct connection between the balance of funding and turnout. Others (e.g. Sandwell MBC) find the evidence inconclusive and suggest that there may be an indirect link, but that the reasons for low turnout are likely to be much wider (‘general apathy’). Some have no view and many would support more research. Some argue that there is no link at all.
28. Group 2 responses do not answer these questions. Group 3 responses show a range of views (e.g. those in Annex B), but in general argue that to be properly democratic, authorities must raise more money locally. This is usually expressed as a democratic principle (“he who pays the piper calls the tune”) or as a result of the need to ensure clear lines of accountability – this group rarely identify gearing as an important issue in itself. They often argue that turnout is low because of a general lack of interest in the issues rather than due to the balance of funding.

#### Other accountability issues

*Q.4: Does the present local government finance system distort accountability? If so, how? Is accountability the most important (or even the only) key principle for a workable system?*

*Q.6: What else distorts the accountability of local authorities to their electorates? How and why? What can be done about it?*

29. Most responses either do not address these questions or conflate them with earlier questions (see paras 17-21 above). Most of Group 1 and many of Group 3 argue that a range of features of the current system distort accountability, especially gearing and ring-fencing (and a range of other ‘balance of control’ issues such as specific grants). County and police authorities in particular argue that ring-fencing is a serious issue, and many responses oppose the use of capping. Most responses argue

that the system is too complex. One (Gloucester City) argues that the Private Finance Initiative endangers the link between tax and services.

30. Many authorities argue that the current tier and precepting system distorts accountability and increases public confusion. There is some support for increasing the number of unitaries (e.g. Taddington & Priestcliffe PC). The Countryside Alliance argues for direct funding to parishes in the Quality Parish Scheme. LB Lewisham argues that the Review should consider the role of directly elected Mayors and implications for accountability issues.
31. Some responses argue that authorities have some responsibilities that could be viewed as 'national' and might, on that basis, be funded directly by central government - e.g. health (Surrey Tax Action Group), education and police (Waverley BC), or agencies where there is no local discretion (Bexley). Many oppose such 'centralisation' as a solution to the balance of funding issue. Rutland CC argues that clarity requires a division between services that are statutory functions subject to local *administration* and discretionary services subject to local *government*.
32. Groups 2 and 3 do not usually use the term accountability, but they clearly feel that local councils are not accountable to them and not transparent. Their comments include:
- People need to believe that taking part matters – that it has an effect.
  - The system is too complex and people are not aware of entitlements.
  - Residents are powerless against local councils and do not have access to information about who makes choices.
  - Every level of government blames every other level and no member of the public can find the truth – the precise roles of each level must be clarified.
  - Local elections are a poor measure of accountability because they are not specific about complex decisions, so there should be independent audits.
  - Councils are inefficient and there is no incentive for them to improve – they need more dialogue with residents/taxpayers.
  - The billing system does not allow comparisons between service providers.
  - People need to know what services are available, what taxes they pay and for what, who's responsible, and that services are well managed.

### Equalisation

*Q.7: How important is equalisation? Would a change in the balance of funding provide an opportunity for less equalisation or more?*

*Q.8: How easily would equalisation work if there were no central grant and local government were funded entirely from local sources?*

33. Not all responses (especially those from Group 2) mention equalisation though all that did agreed that it was necessary. Only a few argue that equalisation could work without any central grant. Many argue, though without much detail, that equalisation could be achieved with less central grant. Some consider equalisation (or 'fairness between authorities') the most important principle (e.g. Plymouth City). Many responses say that any extra tax raised locally would also have to be equalised.

34. Some sample comments on the grant and equalisation systems:

- The current RSG/NNDR system means an authority gets very little benefit for increasing its local tax base (Manchester City).
- The system is 'opaque, capricious and clumsy' (Surrey Tax Action Group).
- The system is inefficient when it comes to changes (Tendring DC).
- Grant allocations notified before the year starts must be firm (Shrops CC).
- The system gives too much to deprived areas (which get other grants) – the 2003/04 resource equalisation system should be reversed (Hants CC).
- Should return to the pre-1990 system (Bury MBC).
- The system does not take account of service levels, efficiency, or the environment – need to research how to improve it (Gloucs CC).
- System takes full account of resources but not of needs (Barnsley MBC).
- Matching grant to spending will remove worst effects of gearing, as argued in Steve Freer's paper (BoF 14) (CIPFA, LB Kensington & Chelsea).
- Dynamic equalisation is highly complex, uncertain (it would take four years to resolve), can be manipulated, and would mean that 'tax-rich' authorities paid for overspending by 'tax-poor' ones (Surrey CC, Hants CC).
- Equalisation should be based on 'real terms' (it is 'assumed', not 'actual') (Devon & Cornwall PA).
- Would like to see consideration of a mechanism to support equalisation above assumed levels (Wirral MBC, SIGOMA).
- Narrowing the differences in FSS per head (i.e. reducing equalisation of needs) could help reduce differences in gearing (Shrops CC).
- There should be equalisation at regional and European levels as well as national level (Northumberland CC).

35. A few responses deal with the equalisation system in much more detail and propose specific major reforms (e.g. INLOGOV, Devon CC, Professor Iain McLean). Many responses ask for more research into equalisation.

#### Research (domestic and international)

*Q.10: How deeply should we be looking at other developed countries and why? What should we be looking for? Which countries should we look at and why? Do you know of any useful case studies?*

*Q.11: Should the Review commission research on different issues? Are the research proposals on the table realistic and suitable?*

36. These questions aroused the fewest responses. Some (e.g. Oldham) argue that research should be minimised, due to shortage of time and as international comparisons are meaningless, or that it should be kept very limited and focused (e.g. Sandwell MBC). Others want urgent research on specific issues – e.g. equalisation and Council Tax bandings (Gloucs CC), use of minor tax options in OECD countries (LB Westminster), and local income tax (Notts CC). Some argue the Review should look very closely at international lessons (e.g. Milton Keynes), and some specify that it

should look at countries with stable systems and high local turnout. Others suggest the Review look at a single country for lessons on a specific issue or tax option – for example, locally assigned taxes (e.g. a levy on income tax) could be studied in Germany, or successful equalisation of resources and needs in Australia (as suggested by Professor Iain McLean).

### Tax options

*Q.12: Do you think that the problems we (and you) have identified can be solved by a package of reforms to the existing system (e.g. changing the banding on council tax, encouraging local referendums on financial issues)? If not, please explain why you think major (and probably disruptive) change is needed.*

*Q.13: What specific options for major change would you propose or support? What changes might you oppose? Why? What are the pros and cons of each of these options?*

37. Responses show little support for retaining council tax in its current form as the only major local revenue source. There is broad agreement on its drawbacks and how they might be addressed. However, there is a range of views on whether it should be reformed or abolished, and what revenue sources should supplement or replace it. Some responses (mostly from Group 2, but also Group 1) make no alternative suggestions at all, while others (e.g. LGA) suggest a number of options for consideration but do not express a clear preference. Many suggest further research and another consultation on specific options at a later date. RICS argues for no major change until the full effects of the 2007 Revaluation are known.
38. Of those who commented on local referendums, all were opposed. The reasons given included that they cut across local elective democracy, and that the issues may be both highly complex and divisive between different parts of an area (“who in Ashbourne would vote for a new Sports Hall in Wirkworth” – Taddington and Priestcliffe PC).
39. Many respondents in all groups favour reform of council tax (RCT). They argue that despite recent rises, it is “a fundamentally sound basis on which to raise a proportion of local authority funding” (Surrey CC). It is easy to collect, hard to evade, visible and quite well understood. It could be made more progressive (take account of ability to pay) and special arrangements might be made for pensioners and others, including through the council tax benefit system. Responses from areas with high property values want the limitation of council tax benefit (which caps benefit at Band E levels) abolished. A revaluation is needed, though there are some concerns in responses from London and the South East that this will lead to higher tax bills in their areas. Changes could be made to the banding system to add more bands at the top and bottom of the scale and have a wider range between bands - or ‘regional banding’ could be adopted. Finally, limits could be set on the amount raised by RCT (e.g. Winchester Council Tax Action Group argues it should be limited to 25% of all the authority’s revenue). However, some respondents (e.g. Liberal Democrat Party, many of Group 2) reject any property tax and want it to be abolished in favour of a tax based on ability to pay.

40. If council tax were abolished, it is accepted that there would have to be another major source of income to replace it. Many who argue that it should be kept but reformed say that it should not be the only major tax. Most responses suggest that named alternative options be adopted or at least considered. Almost all Group 1 responses and some others favour business rate re-localisation (LBR), usually in combination with either RCT or Local Income Tax (LIT). Many of these argue that it would resolve the balance of funding and gearing issue as it would increase the proportion of revenue raised locally to an average of 50%. They argue that it would be easy to achieve and improve partnership between local councils and businesses. Many say that they welcome the Local Authority Business Growth Incentive scheme, but that LBR would be preferable. CIPFA argues that the linking of business rate rises to inflation should be re-examined in light of the increasing burden on the domestic local taxpayer. However, many responses argue that LBR revenues would need some equalisation and that there would need to be guarantees to business. Rises in LBR levels might be limited to the same level as the main local domestic tax to ensure that businesses did not suffer, or LBR might be only partially localised. Some Group 1 responses (e.g. East Riding) oppose LBR, as do responses from business organisations. The Institute of Directors argues that having LBR risks giving local politicians a 'free hit' to boost services for voters at the expense of non-voting businesses, could undermine the regeneration of disadvantaged areas and could discourage efficiency. RICS argues that having different rates in each area would lead to an uneven playing field and huge compliance costs. Group 2 responses do not refer to LBR.
41. The other major option is Local Income Tax (LIT). Responses are divided between RCT and LIT as the main local revenue source - some favour having both and others ask for more debate and research before making a decision. The advantages of LIT over RCT are that it would be progressive and buoyant. However, it is not clear how LIT would be collected, and some think it may be easier to evade than RCT. Group 1 responses show a range of views – some prefer RCT (e.g. Leeds City, Kent CC), some LIT (e.g. Bury MBC, Notts CC) and some want to look at all options (Salford City). A few (e.g. West Berks CC) say that their councillors have a range of views. Also, it is not always clear whether responses asking for council tax to be replaced by 'income tax' refer to locally set income tax (i.e. council sets rate), locally assigned income tax (i.e. Government assigns fixed amount to council) or higher national income tax. Many responses say that both locally assigned and locally set income tax should be considered as options (some, e.g. Shropshire CC, note use of assigned national income tax in Germany). Some oppose a locally set income tax but suggest that a locally assigned one should be considered (Surrey CC).
42. Composite options – having a variety of different taxes, including ones with a lower take (e.g. sales taxes) – are popular. The most popular composite option, especially from Group 1, combines LBR with either RCT or LIT. Many responses also suggest several minor revenue sources. Many ask for more charging and trading powers than are allowed by the 2003 Local Government Act. Some suggest specific charges – e.g. on planning fees

## BoF (12) – Summary Report of Responses to Public Consultation

or food hygiene inspections (Bedford). Many suggest more consideration be given to a local sales tax or levy on VAT – although there is concern that it would be regressive and could lead to neighbouring areas charging very different prices. Many support taxes based on the principle that the consumer pays – other suggested ‘user taxes’ are tourist taxes (e.g. Kent CC), congestion charging, road user charges (RICS) and environmental taxes (for example on plastic bags, as in Ireland). Others mentioned include local stamp duty (Leeds City), airport and toll road taxes (Essex CC), or allowing authorities to retain receipts from vehicle excise duty to help with road maintenance pressure, to provide incentives to crackdown on tax dodgers locally and assist in dealing with abandoned vehicles (Kent CC). There is some interest in land value taxes, to allow local benefit from developments that increase land value - some responses (e.g. Tony Vickers, Northumberland CC) mention trials in Liverpool and Oxfordshire of a system that could be used. Some responses argue that extra variety and buoyancy could make the system more complex and unaccountable, unless it were clear which taxes were assigned to each service or tier. One member of the public suggests a division between tiers where the district raises RCT to pay for very local services (e.g. waste collection), while the county raises LIT for wider services (e.g. education).

43. In conclusion, while all respondents feel that change is needed, there is a considerable range of views on how to achieve it. Most would be happy to look at the pros and cons of a range of options and are aware that there is no simple solution or easy option.

**ANNEX A: LIST OF RESPONDENTS**

**Group 1: Local Authorities (136)**

<i>Association of London Government (ALG)</i>	<i>Manchester City Council</i>
<i>Association of North East Councils</i>	<i>Medway Council</i>
<i>Association of Police Authorities (APA)</i>	<i>Mid Sussex District Council</i>
<i>Avon &amp; Somerset Police Authority</i>	<i>Milton Keynes Council</i>
<i>Barnsley Metropolitan Borough Council</i>	<i>Norfolk County Council</i>
<i>Bedford Borough Council</i>	<i>Norfolk Police Authority</i>
<i>Bexley Council</i>	<i>North Cornwall District Council</i>
<i>Birmingham City Council</i>	<i>North Devon District Council</i>
<i>Blackburn with Darwen Borough Council</i>	<i>North Lincolnshire Council</i>
<i>Bracknell Forest Borough Council</i>	<i>Northumberland County Council</i>
<i>Bury Metropolitan Borough Council</i>	<i>Northumberland County Council (Cllr Duffield)</i>
<i>Cambridgeshire Police Authority</i>	<i>Nottinghamshire County Council</i>
<i>Camden, London Borough of</i>	<i>Oldham Metropolitan Borough Council</i>
<i>Cheshire County Council</i>	<i>Overseal Parish Council</i>
<i>Chester City Council</i>	<i>Oxford City Council</i>
<i>Core Cities</i>	<i>Oxfordshire County Council</i>
<i>Cornwall County Council</i>	<i>Plymouth City Council</i>
<i>County Councils Network</i>	<i>Poole Borough Council</i>
<i>Coventry City Council</i>	<i>Portsmouth City Council</i>
<i>Cumbria County Council</i>	<i>Rutland County Council</i>
<i>Darlington Borough Council</i>	<i>St Albans, City &amp; District of</i>
<i>Derby City Council</i>	<i>Salford City Council</i>
<i>Derbyshire County Council</i>	<i>Sandwell Metropolitan Borough Council</i>
<i>Devon &amp; Cornwall Police Authority</i>	<i>Sheffield City Council</i>
<i>Devon County Council (Joint Authorities)</i>	<i>Shrewsbury &amp; Atcham Borough Council (Lib Dem Group)</i>
<i>Doncaster Metropolitan Borough Council</i>	<i>Shropshire County Council</i>
<i>Dorset County Council</i>	<i>Shropshire County Council (Lib Dem Group)</i>
<i>Dorset Police Authority</i>	<i>Special Interest Group Of Metropolitan Authorities (SIGOMA)</i>
<i>Dudley Metropolitan Borough Council</i>	<i>Slough Borough Council</i>
<i>Durham County Council</i>	<i>Society of District Council Treasurers</i>
<i>Dyfed-Powys Police Authority</i>	<i>Solihull Metropolitan Borough Council</i>
<i>East Cambridgeshire District Council</i>	<i>Somerset County Council</i>
<i>East Hampshire District Council</i>	<i>South Shropshire District Council</i>
<i>East Hertfordshire District Council</i>	<i>South West Local Government Association</i>
<i>Eastleigh Borough Council</i>	<i>Southend Borough Council</i>
<i>East Riding of Yorkshire Council</i>	<i>Staffordshire County Council</i>
<i>East Staffordshire Borough Council</i>	<i>Stevenage Borough Council</i>
<i>East Sussex County Council</i>	<i>Stockton-on-Tees Borough Council</i>
<i>Eden District Council</i>	<i>Stockport MB Council</i>
<i>Epsom and Ewell Borough Council</i>	<i>Suffolk County Council</i>
<i>Essex County Council</i>	<i>Suffolk County Council (Lib Dem Group)</i>
<i>Essex Police Authority</i>	<i>Suffolk Police Authority</i>
<i>Exeter City Council</i>	<i>Sunderland, City of</i>
<i>Gateshead Borough Council</i>	<i>Surrey County Council</i>
<i>Gloucester City Council</i>	<i>Surrey Police Authority</i>
<i>Gloucestershire County Council</i>	<i>Sutton, London Borough of</i>
<i>Gloucestershire Police Authority</i>	<i>Tameside Metropolitan Borough Council</i>
<i>Greater Manchester Fire Authority</i>	<i>Taddington &amp; Priestcliffe Parish Council</i>
<i>Hackney, London Borough of</i>	<i>Taunton Deane Borough Council</i>

## BoF (12) – Summary Report of Responses to Public Consultation

<i>Hammersmith &amp; Fulham, London Borough of</i>	<i>Telford &amp; Wrekin Borough Council</i>
<i>Hampshire County Council</i>	<i>Tendring District Council</i>
<i>Hampshire Police Authority</i>	<i>Test Valley Borough Council</i>
<i>Havering, London Borough of</i>	<i>Tonbridge &amp; Malling Borough Council</i>
<i>Herefordshire District Council</i>	<i>Unitary Treasurers Group</i>
<i>Hertfordshire County Council</i>	<i>Uttlesford District Council</i>
<i>Hounslow, London Borough of</i>	<i>Uttlesford District Council (Lib Dem Group)</i>
<i>Humberside Fire Authority</i>	<i>Wakefield Metropolitan District Council</i>
<i>Ipswich Borough Council</i>	<i>Walsall Metropolitan Borough Council</i>
<i>Islington, London Borough of</i>	<i>Waverley Borough Council</i>
<i>Kensington &amp; Chelsea, Royal Borough of</i>	<i>West Berkshire County Council</i>
<i>Kent County Council</i>	<i>Westminster, City of</i>
<i>Knowsley Metropolitan Borough Council</i>	<i>West Sussex County Council</i>
<i>Lancashire County Council</i>	<i>West Yorkshire Police</i>
<i>Leeds City Council</i>	<i>Wigan MBC</i>
<i>Lewisham Council</i>	<i>Wirral, Metropolitan Borough Council</i>
<i>Lincolnshire Police Authority</i>	<i>Worcestershire County Council</i>
<i>Local Government Association (LGA)</i>	<i>Worthing Borough Council</i>
<i>Luton Borough Council</i>	<i>York, City of</i>

### **Group Two: Individuals on Fixed Incomes (45)**

45 responses were received from members of the public.

### **Group Three: Other Organisations & Individuals (35)**

<i>Audit Commission</i>	<i>London First</i>
<i>Bedford Association of Senior Citizens</i>	<i>McLean, Professor Iain (Oxford University)</i>
<i>Bespoke Economics</i>	<i>Mayor of London</i>
<i>CCPR</i>	<i>Merseytravel</i>
<i>Chartered Institute of Environmental Health</i>	<i>New Policy Institute (NPI)</i>
<i>CIPFA</i>	<i>National Union of Residents' Associations</i>
<i>Countryside Agency</i>	<i>One NorthEast</i>
<i>Electoral Commission</i>	<i>Passenger Transport Executives Group</i>
<i>Environmental Services Association</i>	<i>Rating Surveyors Association</i>
<i>Federation of Small Businesses</i>	<i>Royal Institution of Chartered Surveyors</i>
<i>INLOGOV (Birmingham University)</i>	<i>South East People's Advisory Group</i>
<i>Institute of Directors</i>	<i>Surrey Tax Action Group (STAG)</i>
<i>IsItFair (forwarded by Gershwin Court Residents Association)</i>	<i>Transport for London</i>
<i>Jones, Prof George (LSE) and Stewart, Prof John (Birmingham University)</i>	<i>Vickers, T (Modern Maps)</i>
<i>Liberal Democrat Party &amp; Liberal Democrat Group on the LGA</i>	<i>Winchester Council Tax Action Group</i>
<i>Local Government Information Unit (LGIU)</i>	

4 responses from members of the public with specific interest in local government finance issues (e.g. retired council finance officers) were included in this group.

## **ANNEX B: Summaries of some responses**

**Note:** This Annex summarises the key points of seven responses from Group 3. The reason for summarising each response separately in this Annex is that each of them proposes a comprehensive package of changes, which should be seen as a whole.

- (a) The problem is that the system is hard to understand, regressive and can be manipulated. Low turnout is due to complexity and disgust with both central and local government. The balance of funding and the demand for locally raised taxes are irrelevant. Taxes must be transparent and easy to collect, using existing mechanisms. A locally-set income tax would duplicate Inland Revenue work and would be expensive and pointless. Council Tax should be abolished and replaced by re-localised business rates and a 0.5% levy on national income tax and VAT. Part of this revenue should go to an independently run pool for equalisation. *[IsItFair]*
- (b) The system is too complex and unfair on “asset rich but cash poor” people, and should be radically changed. Health services and business rates should be local. Council Tax should be reformed as a uniform, rebanded and revalued ‘property tax’ with relief to pensioners (on an age basis), and capped at 10% of total local government income. Most local government funding should come from central government approval of specific plans, other investors, and borrowing. Local authority areas are too large and do not reflect real neighbourhoods. There should be much more real public consultation and direct local accountability (not only via elections), and tax invoices should be much more explicit so people know who is responsible for what and how much is spent on it. Targets and audits are responsible for staff proliferation and public confusion. *[Surrey Tax Action Group]*
- (c) The balance of funding is irrelevant to local election turnout because voters are not aware of it and because turnout is low in all areas and all countries. Local authorities need to be in charge of their own budgets and spending, and should be accountable to local ‘select committees’ (who can judge such complex issues) and local media, and be obliged to publish their minutes. Gearing is useful as it concentrates public attention on tax rises. The equalisation system should be based on ‘equity’ rather than ‘equality’, with grant distributed on the basis of population divided by per capita income. Local sales tax would be regressive, expensive and unpredictable, so the main options are reformed council tax (with special arrangements for pensioners) or local income tax, which would be more progressive but less predictable. On balance, prefers local income tax. *[South East Older Peoples Action Group]*
- (d) Local authority expenditure has been rising for a decade due to higher expectations and councils taking on services previously done by families, so costs need to rise even to keep services the same. A proportion of the revenue needed should be raised locally, and Council Tax is not fair. The options are therefore local income tax, local sales tax (VAT) and a revised property tax. Since not everyone will agree, you need to compromise. Local income tax can be evaded by the black economy and the very rich

## BoF (12) – Summary Report of Responses to Public Consultation

(who register abroad) and should be ruled out. Local VAT would mean different prices in adjacent areas. Property tax can be good as long as it does not rise too high, as it is hard to evade; it could be discounted for time spent in a house (1% per year) to avoid penalising long term occupants. A mix of local VAT and property tax would be balanced, predictable and easy to collect. [*Bespoke Economics*]

- (e) The proportion of local revenue raised through Council Tax is already too high and should be reduced. It should not be abolished, as property taxes are efficient and effective. The Review should consider local sales and income taxes in addition to council tax and central grant (which can both be reduced). Gearing can be resolved separately (see paper BoF 14 by Steve Freer). Government's legal guarantee that business rates should not rise above inflation should be reassessed, given the higher burden on the taxpayer through Council Tax rises. Re-localise business rates (with arrangements for equalisation), and allow more charging/trading powers. [*CIPFA*]
- (f) The current system is too centrally directive for proper local accountability. Of the options, local sales tax is regressive and taxes mobile goods (and therefore encourages people to buy elsewhere). There should be some property tax - it seems unbalanced to tax property held by businesses but not that of residents. So, why not have either: (1) a system where districts charge council tax for local services (e.g. waste) and counties charge local income tax for more 'personal' services (e.g. education), or (2) modify Council Tax to reflect ability to pay (e.g. the top 25% of families by income pay full rate, the bottom 25% pay only 10%)? Also, re-localise business rates, as local government delivers services to business, and have more charging and trading powers. [*Member of public*]
- (g) The system's design depends on which expenditures are best met by each government level (national, regional, local, parish). The benefit area, tax area and electoral area should correspond. To ensure accountability, tax responsibility should be decentralised to match expenditure responsibility. A major step would be to abolish central grant, replace it with a local power to levy an income tax on local residents and reduce national income tax. Horizontal inequities will still need addressing – this may be partially done at household level (e.g. through education vouchers). Current methods of needs assessment perpetuate historical patterns of spending. Address the problem of gainers and losers from change by damping and safety netting. Transfer responsibility for horizontal equalisation to independent body (as in Australia, studied by Professor McLean). [*INLOGOV*]