

COUNCIL TAX : REFORM, REFUND OR REPLACE

SUBMISSION FROM DEVON AND CORNWALL POLICE AUTHORITY

INTRODUCTION

1. Devon and Cornwall Police Authority is grateful for the examination of the problems of local government finance and welcomes the opportunity to comment. We are deeply concerned over funding and the impact this can have on policing and the citizens of the south west, both as service users and council taxpayers. We are seeking to further government objectives on policing and meet the legitimate aspirations of local people for more police officers but financing problems are increasingly getting in the way.

2. The council tax system was a great improvement on the ill-fated community charge. However, the system is flawed and continued switching of the burden of paying for services from the central to the local exchequer is throwing these flaws into sharp relief, constraining legitimate service development and causing some real distress.

3. The major flaws in the system are:

- Complexity/lack of transparency
- Lack of buoyancy
- Gearing
- Equalisation
- Ability to pay

These have been made worse by the switch from central to local taxes. Council tax increases have been kept in check this year by a combination of extra central resources and threats on capping. This is not a long-term solution. The heat may have gone out of the debate for the present but the problems remain.

COMPLEXITY

4. Government has reviewed the SSA/government grant system with a view to improving clarity, transparency and accountability. The resulting system can still be seen as complex and opaque and accountability is still blurred. Local people could be forgiven for becoming increasingly frustrated and cynical about where responsibility lies.

BUOYANCY

5. Council tax lacks buoyancy. All other major taxes – such as income tax, VAT or excise duty rise as incomes or activity rises without increasing the rate. Council tax does not, leading to the need to increase the tax rate each year just to stand still. This makes the tax very visible and should improve accountability but council tax has now reached such a scale that it is a very real and indigestible burden for many people on low or fixed incomes. This is now distorting accountability.

GEARING

6. The gearing effect was designed to enhance accountability by magnifying the impact of local decisions. However, the process has now gone so far as to achieve the reverse, confusing the electorate, encouraging cynicism and blurring accountability. It is difficult to explain to local people why an increase in spending locally automatically leads to a much larger increase in council tax. Once again, the flaw is highlighted by the shift in burden from the central to the local exchequer. Each time central grant fails to keep pace with spending needs, many of which are determined centrally, council tax rises with no obvious improvement in local services. This is bad for local government, local services, central government and, ultimately, for democracy.

7. Gearing must be one of the key topics for review. It has now served its purpose and should be reduced. Ironically, doing nothing would actually reduce gearing as a greater and greater proportion of the cost of local services is met locally. However, this would pose intolerable burdens on local people. Gearing should be reduced by giving local authorities wider and more flexible income sources, not by increasing the council tax. As a first step, this could be eased at a stroke by the return of the determination of the business rate to local government from whence it came.

EQUALISATION

8. Any system of local government finance will require some form of equalisation to smooth out differences in needs and resources between authorities. However, it is believed here that the current equalisation process concentrates on fundamentally the wrong parameters thus producing perverse results. The current system seeks to equalise the amount of council tax in £s to provide a standard level of service. However, finding say £1000 in one part of the country is harder than in another because incomes differ significantly. Average incomes in Devon and Cornwall are low and an equal council tax would be more of a burden here than it would be in, say, the south east. In one sense, this is the other side of the Area Cost Adjustment. We move moneys from poor areas to rich ones to compensate for higher wage costs but we fail to compensate low wage areas for the extra relative burden they have to bear. The Devon and Cornwall Police Authority believes most strongly that equalisation should be based on equalising tax relative to earnings. This would have a fundamental impact on the distribution of grant across the nation and hence on council tax for low-income areas.

ABILITY TO PAY

9. Perhaps the biggest problem with the council tax is that it is only poorly related to ability to pay. There is some crude relation based on house prices but that is not helpful in a high house price/low income area like ours. People in Devon, Plymouth and particularly Cornwall and Torbay have to work many hours more to pay their council tax than do people in more affluent areas. Furthermore, we have a large and growing population of pensioners who are seeing their standard of living continually eroded by the council tax system. One respondent at a recent consultation meeting retorted that, at this rate, in five years time his entire pension will go on council tax. That may be an exaggeration but is sufficient to illustrate the degree

of concern and how the lack of a link to ability to pay can swamp rational debate on the level of service provision. There is a growing frustration with the present arrangements which is starting to lead to political action. Feelings are running high.

10. Ability to pay problems do not just concern pensioners. Many of our young people are struggling to start independent adult life on very low incomes and are facing some of the highest house prices in the country.

11. Ability to pay issues will be magnified when council tax banding is revalued. House prices here have moved ahead faster than many other areas so, without intervention, revaluation will lead to individuals moving up council tax bands and further substantial movements of government support away from this area. The situation is serious and the scale of the likely problems is only now beginning to feature in public debate. Revaluation could just be the final straw for many voters.

12. All these conceptual and practical problems have been exacerbated by the sheer size of local council tax bills. Average bills now exceed £1,000 as income tax has been kept down and council taxes have risen. There must be a limit to how long this can go on. Council tax is highly regressive in that the proportion of income taken falls as income rises. This is compounded if it is used to hold down income tax. Nationally, the lowest earning 10% of people pay 10% of their income in council tax and water bills. The highest earning 10% pay only 1%. The reverse is true on income tax. The bottom 10% of earners pay 2.5% of income on income tax. The top 10% pay 18%. Thus limiting income tax and increasing council tax moves the burden from rich to poor. As the area cost adjustment moves money from poor areas to rich ones and we fail to compensate for the relative burden of council tax, it can be said that areas like this face a classic triple whammy. Any way forward must be better related to local ability to pay.

THE NEED FOR ACTION

13. Devon and Cornwall Police Authority submits that the current system of council tax will be difficult to sustain. Continued switching from central to local exchequers has thrown the inherent flaws of the current system into sharp relief. The council tax has lasted over 10 years. It is difficult to see it lasting another 10 without reform, refunding or replacement. The worst option would be to do nothing and see local services and democracy suffer as local incomes are squeezed and some simply refuse to pay. We already have some pensioners threatening to go to jail rather than pay the existing increases. The strength of feeling amongst council tax payers here, particularly those on low or fixed incomes who feel trapped by the present system, should not be underestimated. In our view, blurred accountability and perceived inequity are calling the legitimacy of the tax into question and are leading to frustration and disaffection.

14. The current lull in debate as a result of low increases this year should not be interpreted as meaning the problem has gone away. Funding difficulties in 2006/07 and the potential impact of the 2005 revaluation will bring council tax back into the headlines – particularly in high house price/low income areas like this. It is, therefore, asserted that this review must grasp the nettle of council tax and examine radical alternatives.

15. This is not just a financing issue. Ultimately it is about services, citizenship and politics. Without a fair and transparent local government finance system, government priorities will not be delivered, local aspirations will remain unfulfilled, frustration and disaffection will grow, voter turnout will continue to decline and public service will be brought more into disrepute.

16. It is acknowledged that there are no easy answers but action is vital. The following suggestions may help.

RECOMMENDATIONS

- 1. Return the business rate to local government determination at the earliest possible opportunity (probably 2007/08). This would overcome many of the gearing problems at a stroke. If government believes in the new localism, those closest to local business should be trusted.**
- 2. Review the 2005 revaluation. Measures must be put in place to avoid adverse impacts on individuals and authorities in low income/high house price areas like the south west. Otherwise the revaluation should be abandoned. This would do much to head off growing concern.**
- 3. As part of this review, consideration should be given to extra council tax bands at the top and bottom of the price range to make the tax less regressive.**
- 4. If a formula approach to grant distribution is to be retained, it should be clear, simple and transparent. Changes in grant should be explicitly related to new demands from government. If the service development is not funded, it should not be provided. 'Money has been provided in the formula' is no longer acceptable if the claims add up to more than the total.**
- 5. Additional resources in 2006/07 and beyond should be provided to stem and then start to reverse the recent trend of pushing the burden on to local people. This would help stop the current taxation system from becoming more regressive.**
- 6. Consultations on council tax equalisation based on relative burdens should begin for implementation from 2007/08. Equalisation as a key objective is only meaningful if it relates to equalisation in real terms not just money terms.**
- 7. The Lyons Review should examine fundamental alternatives or supplements to the council tax system which are based more clearly on ability to pay with a view to implementation by 2007/08. Such a review must examine in detail the possibility of local income tax against the declared principles of accountability, equity, buoyancy and legitimacy. In doing so, it must be acknowledged that equalisation will still be necessary to compensate low-income areas such as Devon and Cornwall.**

CONCLUSION

17. Devon and Cornwall Police Authority welcomes the opportunity to contribute to the Lyons Review. The review is vital. Public confidence in the council tax system has been badly dented. It is acknowledged that the matter is complex and that there is no one right answer. However, local government services and finance are so important that a way forward must be found. Proposals are set out here which seek to address the key issues and are commended to the Review.

18. Whatever is decided, it is important that real and practical proposals emerge before current problems are exacerbated by the 2005 council tax revaluation.

Devon and Cornwall Police Authority

April 2005