

Milton Keynes Council is pleased to add to its previous submission, to share the latest thinking on the developments in local government finance. We have gathered our thoughts under the following headings

1 **Is the Council Tax system broken?**

The Council Tax system is certainly struggling. However, it does have powerful advantages, which can be enhanced if a few of the challenges in the system were addressed. It is important to stress that one of these challenges would put any tax system under strain if it is not addressed.

Successes

- Certainty of the tax – compared to many taxes, the certainty and stability of a property tax is a major advantage.
- Connected to need – part of the overall local government finance system, is the measurement of a Council's need to spend. This constant check with spending reality is a powerful advantage where **demand**, either through changes in volume or price – **is always changing**. We are dealing with volatility, which we will develop further in the next section. Indeed, sometimes the system is the first to pick up that there has been a social change, through the comparison of cost with the perceived need. In a world of change and scarce resources, this constant re-balancing is a necessity.

Challenges

- Re-organise local government units – matching resources to demand becomes more complex, the more the system has to be fine grained. Put bluntly, the “District problem” brings with it a requirement for detail and accuracy that any distribution system would struggle to deal with.

Relationships that hold true at a Regional or sub-regional level begin to break down for lack of detailed information – for example, when looking at population projections, the effect of migration can be tracked at a high level, but the calculation becomes arbitrary at the level of a District.

Further, issues of volatility increase the smaller the unit of analysis. Larger units average out variation and volatility, and make a system more stable. Reducing the number of levels of governance eliminates distribution problems between tiers. Part of the problem of the Council Tax system can only be solved by having larger local government units.

- Getting better fairness – the obvious complaint is that the tax bears more heavily on the poor. This is fixable by extending the bands and having a more responsive rebate system. However, it is a function of a tax system to challenge consumption choices. For example, an over-generous rebate system for the elderly in high banded properties would frustrate this.

- Limit to Council Tax level – the much “chatted” about idea is that there is a “natural” level of property tax. Getting better fairness would go some way to meeting this point. However, the objection to the level of tax is also to do with the rate of change, its visibility and a national choice.

For example, the tax on fuel has now reached a level that was the cause of riot several years ago, but is now accepted – in short, the rate of change has been slowed down, and the level is now acceptable. Turning to the issue of visibility, it is one that has to be accepted as part of the territory – visible taxes will attract attention – it is inescapable, but is not a reason to scrap the tax. Finally, the level of property tax is more affected by national considerations – broadly, society ‘contracts’ to a total level of tax, which is then collected through a variety of devices. In other counties, there is a higher level of VAT, or industry pays more tax, or landowners pay more tax, or there are new taxes. Whilst there is nothing ‘natural’ about the level of property tax, a consensus in favour of it has to be worked for.

One way of improving the tax is to annually inflate the value of the bands. This would introduce buoyancy and lessen the degree of correction at re-valuation.

- Alternative solutions – the Council’s formal policy is to support replacement or supplement of the Council tax with a local income tax, which would produce a more directly fair and equitable outcome. We have not discussed the detail of setting and collecting a local income tax.

2 Structural issues

The system of government at a local level - in the widest sense of involving many agencies – suffers from not being joined up. There are five issues:

- The Regional Boundaries – there is a regional mess, with Government, the RDA’s, Regional Assemblies, and other agencies operating with non-coterminous boundaries.
- Annual Elections – the existence of four yearly and annual elections, is confusing for the electorate, especially the mobile [as they move from area to area]. It does not provide a focus for local government, diminishing its importance. The system should be standardised, preferably to the four yearly model. This would support medium /long term planning and enable the delivery of change that short-term horizons preclude.
- Growth – the systems of Government planning are waking up to the challenge of incorporating growth in their thinking and their forecasts. The models need to answer the challenge - how do they deliver growth? This is to be compared with finding out that a Departmental model has been updated and they do not address the challenges of growth.
- Population projections – the ONS are a key element in delivering a better system of financing local services. The production of accurate population estimates is the bedrock of the system, as is the analysis of the rate of population movement – or churn - in an area. Total numbers and the rate of

churn are the major demand determinates. Larger units of local government and co-terminous boundaries would simplify the ONS's task.

- Parish Equalisation – the proposition, that there should be larger units of local governance, would appear to run counter to the issue of neighbourhood fairness. A rich Parish will be able to buy more, for the same level of Parish tax, than a poor Parish. The fine graining of resource equalisation, should be a task for the local Council rather than the ODPM. Powers for a Council to do this are required – also a suggested model would be an advantage.

3 Forthcoming Changes

There is one area that is being explored by the ODPM, as part of the introduction of Three Year Settlements (TYS), that requires careful thought. It is an alternative to the current grant distribution system.

- 3 year settlements and the review of the funding formula – there are several important frameworks to establish
 - The difficulties with the formula lie elsewhere – see the argument above that larger units of local government are required. Any new system of distribution will struggle because there are too many local government units and too many levels.
 - Replacement of the current system will re-distribute funds, introducing another uncertainty in 2006-07, already a year of upheaval and change – schools funding, and 3 year settlements to name two. The Local Government side were unanimous in this view at the recent Settlement Working Group [April 5th] - they considered the time to develop an alternative to be rushed.
 - Three Year Settlements do not require a formula change. The current system can deliver TYS.
 - The current funding formula can be tweaked, as is already planned for the elderly elements of it.

Milton Keynes Council
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