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BP

LYONS INQUIRY INTO LOCAL GOVERNMENT FUNDING

Current Issues

Uncertainty about Government funding (which accounts for about 72% of our income) hinders long term planning. Again this year we have a one year settlement, and the Government has released an extra £1b to local government. How do we plan?

Gearing effect – The current Government drive for improvements in service delivery require investment – because only about 15% of our income comes from Council Tax, if we want to increase expenditure for local priorities, the impact of this increase means a significant increase in Council Tax.

Lack of transparency- The formula for calculating the share of the Government funding was changed to make it more transparent as to how the cake was sliced. However, it is very difficult to understand as the imposition of floors and ceilings mean that despite what the calculation of your share of the cake is, you won't actually get it.

Accountability – Council Tax is the only tax the local authority can use to raise money. However, it is difficult to demonstrate accountability for its level to local people when it only accounts for 15% of the income to the local authority, and similarly, we only get about 12% of the income generated from the tax (The majority going to the County Council)

Basis of individual Council Tax calculations – Based on property values from 1991. These do not bare any relationship to the movement in property values since this time.

Impact on fixed income payers – Because Council Tax is not based on earnings it has a bigger impact on fixed income people, for example, people on pensions.

Council Tax is a regressive tax – Households living in the most expensive properties pay only three times more than those in the cheapest, even though variation in house prices is much greater. The result of this is that, for the poorest third of families, Council Tax payments average at over 6% of disposable income, while for the richest third the figure is around 3%. This is despite support for many low income families from Council Tax benefit.

Council Tax is near to being a flat tax in some areas – As in NEDDC a large majority of homes lie in the bottom two property bands, meaning that most homes pay almost the same amount of tax.

How might these issues be resolved?

Longer term planning of Government support – Council's may then be able to lengthen the financial planning horizon and project with some certainty Council Tax levels over the medium term.

Revaluation of housing – To update the property values to enable people to identify a direct link between the tax and their circumstances

Review of bandings – Consider reviewing the size/number of Council Tax bands

Review of Council Tax Benefit – It offers a potential solution to the sensitive problem of a person with low income in a large house and people on fixed incomes. For example, relaxing the impact of savings on Council Tax benefit, addressing the issue of low take up of benefit

Other options for raising finance locally

A reformed property tax

A relocalised business rate

A transfer of a proportion of national income tax (local income tax)

A number of smaller taxes and charges (see attached)

A combination of the above

Problems with change

Council tax is fairly easy to collect and to administer. It is property based, for which it is easy to calculate the size of the pot, and it is fairly easy to track changes. Collection rates are high.

People, although they are unhappy with the levels of increase of Council Tax, are familiar with it, there is no resistance to the overall principle. The difficulty will be in convincing people that any change is not a way of just increasing the tax burden.

Modernising the existing system is likely to be the easiest way forward, if not addressing all of its shortcomings. The difficulty is that each alternative will have specific weaknesses.