

Lyons Enquiry re Balance of Funding - Some comments from Richard Tettenborn

Introduction

In my opinion it is misleading to believe that a change in the balance of funding between centrally controlled and locally-generated sources would in some way affect the relationship between central and local government. My experience in the late 1960s and early 1970s was that government departments were just as much involved in micro-management then as they are now, if not more so. At that time business rates were still set by local authorities and local government in general raised over 50% of its revenues. Indeed in the London Borough of Sutton and in West Sussex, where I was employed during that period we raised a much higher proportion locally, but the relationship with central government departments was no easier.

Secondly, since the second world war, and even more in the period since the financial crises of the mid-1970s the capacity of governments (of whichever shade) to operate on a global basis has been reduced (vide the reduced status of the Foreign Secretary in comparison with other cabinet ministers). In order to be seen to be "doing something" (the *raison d'être* of most politicians) governments, ministers and even local members of parliament have taken an ever greater interest in local affairs.

Thirdly, the rapid expansion of local government spending as services were provided to meet the post-war population bulge as well as growing expectations, has meant that its significance as a proportion of total public spending has changed from being a comparatively minor element to around one quarter of all public spending. Between 1967 and 1972 local government expenditure grew at 8% per annum in real terms, and growth continued at a similar rate until the intervention of Tony Crossland in 1975 and the IMF in 1976.

For all these reasons I believe it is unrealistic to expect that a change in the balance of funding would have any material impact on the relationship between central and local government. Also, as many of the issues which your enquiry has been invited to address were considered in detail by the Layfield Commission in 1976 it is unrealistic to expect that they can be resolved in any simple fashion, although the move to fund schools directly from the centre resolves one aspect of the problem "at a stroke".

Most Pressing Issues

The single biggest problem for local government is that costs continue to rise faster than general inflation (because of the bias in spending towards wages and salaries) and there is continuing pressure to expand and improve services. At the same time the government support does not increase commensurately. This means that the resources raised by local government have to rise disproportionately while the taxbase is not buoyant and the tax bill (and any increase) is painfully transparent. In addition there is no clear link between what is paid out and the services delivered. Most government revenues raised from individuals are collected at source (PAYE, NI, VAT) or are clearly related to a benefit (fuel duties, vehicle excise licences, stamp duty etc.). For the local taxpayer the charge is highly visible with in many cases no obvious return.

The move to fund schools from Whitehall will reduce the problem to some extent. The apparent balance of funding problem will be eliminated at a stroke, and the remaining services (with one or two notable exceptions) will confer more obvious benefits on local residents. It might even be possible to go even further and introduce road-user charging to pay for highways and transport, revert to insurance to pay for fire services and to charging for libraries, planning and environmental and leisure services. Only the police and social services do not obviously lend themselves to such a pattern, although recent proposals to enable the elderly to purchase services such as meals on wheels and home care may take us a bit further down this road.

Council Tax

Although described as a new tax when first introduced, Council Tax is really only a much cruder form of domestic rates, based in a hugely simplified valuation system. As a property tax, subject to some modification, it should remain as an important part of the whole range of taxes, not least because abolition would in all probability simply lead to a surge in house prices.

As it is structured at present the council tax system has too narrow a range to reflect the range of property values and the “economic good” being consumed by the occupation of property. Proposals to add a band at the bottom of the scale to accommodate very low value houses, and one or more at the top would move the system to one genuinely reflecting the value of the assets consumed. A full reversion to domestic rates would require a much more costly revaluation process, with the added problem that the old “rental value” was never widely understood, and with the decline of the rental system would be even less so now.

Raising More Locally

I have already made some general comments on the principles affecting this. It could be argued that anything which reduces the visibility of Council Tax would be undesirable as visibility has been defined by economists as one of the features of a “good tax”. However, the possibilities for charging arrangements referred to above might reduce the objections to Council Tax as it now stands while increasing the locally raised element of local funding.

Other Sources

Some of the points referred to in your terms of reference under this heading have already been dealt with above. I see little merit in a Local Income Tax as it would be seen as even less relevant to local services than the existing arrangements especially as many people would feel (even if wrongly) that they were paying tax at their place of work rather than where they were receiving services. I would favour a move towards charging wherever this is possible, even if some system of discounts might be necessary to reflect ability to pay, but there will always be areas where this is not practical (e.g. who would pay for police services? – the criminals, the victims etc?). A direct relationship between services provided and charges paid might well lead to improved quality and responsiveness on one side, and greater thought about making demands on the other.