



LOCALIS discussion notes

3 February 2010

Is the balance of Funding between Central and Local Government a problem?

SUMMARY

This is a note following a roundtable discussion hosted by Localis looking into revisiting the crucially important idea that funding reform of local government is of fundamental importance for a truly localist agenda. James Morris, Chief Executive of Localis, introduced the session, which was followed by a wide ranging discussion. The participants were:

Participant	Organisation
James Morris	Localis
David Godfrey	Kent County Council
Dick Sorajbi	London Councils
Douglas Carswell	Conservative Party
Debbie Lee Chan	Ipsos Mori
Tom Shakespeare	Localis
Edward Twiddy	HMT
Iain McLean	Oxford University
Mike Clasper	HMRC
Stephen Hughes	Birmingham City Council
Paul Raynes	LGA
Peter Wilkinson	Audit Commission
Richard Harries	DCLG
Roger Gough	Kent County Council
George Jones	LSE
Mike Morgan Gilles	Localis

IS THE BALANCE OF FUNDING BETWEEN CENTRAL AND LOCAL GOVERNMENT A PROBLEM?

- 1. It undermines accountability** – There are well established arguments about the linkage between funding and accountability which were frequently cited.
- 2. Redistribution and equalisation is a problem** – It was noted that the majority of Councils collect enough revenue already, which means that very few would actually need to subsidise the others. It was also noted that redistribution costs approximately 20% at each level of redistribution. It was suggested that there are approximately 10 contributors and 30 beneficiaries to the redistribution system.
- 3. Local government needs greater diversity and buoyancy** – This can only be achieved with access to new tax revenues, as suggested by several contributors.
- 4. Need control over existing funding before addressing balance of funding** – The Treasury controls upwards of 95% of funding and expenditure already, undermining the control of local authorities. There is therefore a strong argument to suggest that this problem – local control and flexibility around existing funding is the primary problem. Another idea was that local authorities should be able to capture the benefits of localised spending back into the local area.
- 5. Total area focus** – There was a degree of separation between those who argued for a greater proportion of local revenue raising powers and those who required an overhaul of the existing system. One participant argued that it is not just the local authorities that operate locally,



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and the tax and spend policy should recognise that and look to join up clear lines of accountability and funding around outcomes – not services. One respondent said that the taxes collected are related to total place and that these must also be looked at to address the fiscal deficit. There was therefore a suggestion that there should be a closer alignment between the tax base and public spend of an area.

6. Postcode lottery makes localising services and spending difficult – There is a public perception that local variations are a bad thing. Localising services and spending controls is therefore a difficult argument to make. One person suggested that postcode lotteries are a nonsense, and that devolving powers and responsibilities would actually create an emergent standardisation across local government.

7. Local government should do less – It was suggested that by letting local government do less, this would be a pragmatic solution to some of the problems around postcode lotteries and the balance of funding. Others disagreed, saying that this is not the answer.

WHICH TAXES ARE MOST APPROPRIATE FOR LOCAL GOVERNMENT?

Sales tax – It was suggested that sales tax roughly matches the total grant settlement to local government and therefore makes it a prime candidate for a good tax for local government.

Balance of taxes – It was suggested that local authorities require both predictability and buoyancy in spending which implies a balance of taxes. Another participant suggested looking at the broader tax take of

different areas in order to fund local government.

Income tax – There were a number of exponents of income tax, including one person who suggested it should be hypothecated and linked to central taxes, and another who suggested assigned national taxes. Others suggested fully localised income tax.

Council tax – There were a number of debates around the utility of Council tax. Proponents suggested that at a basic level it does work, and that taxes on property are sound. Others argued that taxes on land would create greater equity and fewer distortions on economic behaviour. One participant called for all property or land based taxes to be made better aligned with the value of land and joined up more coherently.

HOW SHOULD COUNCIL TAX BE REFORMED

Move towards a land value tax – One participant advocated moving to land value tax to replace the mass of non ideal taxes linked to the value of land, including stamp duty, capital gains etc. The LVT was suggested to be ideal because it is the least distorting of all the taxes. It is also better to tax things which do not move, especially for local taxes. The quick wins in order to minimise the number of winners and losers is to ensure that existing taxes are tweaked

Improve fairness of council tax – One participant said that more regular revaluations would increase fairness. Others disagreed with the extent to which revaluation was the problem. Others suggested that the ability to pay is a much better way of ensuring fairness, and said that rebranding and ensuring take up of the council tax rebate should be the priority.



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Large scale reform of council tax – There was a fairly strong consensus that creating large numbers of winners and losers is a political catastrophe.

For more information about Localis, please visit the Localis website at www.localis.org.uk or phone 0207 340 2660. For more information on this work, please contact Tom Shakespeare on tom@localis.org.uk or call 0207 340 2660.

WHAT ARE THE PRINCIPLES OF REFORM?

1. **Constitutional underpinning** – Needed to ensure future of local government
2. **Government by place not by department** - Institutional funding is less accountable. This is also linked to the idea of clear lines of accountability in local areas
3. **Opportunity with cross party commitment to localism** – There was a fairly strong consensus that creating large numbers of winners and losers is a political catastrophe.
4. **Variation and fairness in the right balance** – Horizontal and vertical equity
5. **Political feasibility** – Should aim to try and minimize political repercussions to ensure that reform can happen
6. **Reduce redistribution** - Create more local incentives and reduce the need for large scale redistribution. Equalisation is not needed at the level at which it currently exists

All content in this discussion note is intended to reflect the broad nature of the discussion, and does not necessarily reflect the views of individuals, organisations of Localis.

FOR MORE INFORMATION

Localis is an independent think-tank dedicated to issues related to local government and localism. We carry out innovative research, hold a calendar of events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.