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English local government finance: issues and options

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Local government finance in England has experienced substantial changes since 2010. This paper examines the challenges that local authorities have faced from reductions in central government funding, and how they have responded to these. Local authorities have been using a number of strategies to cope with reduced funding, including community budgets, city deals, efficiency savings, combined authorities and shared services. They have also reduced or redesigned services, and collected more local taxes where possible.

The paper provides an overview of how local taxation works through Council Tax and Business Rates but also examines some of the ways others have proposed that local taxation could be adjusted to allow local authorities greater flexibility over their revenue. Alongside council tax and business rates, some additional tax raising powers already exist, such as the power to levy a congestion charge and a workplace parking levy. A local income tax, either replacing or complementing the council tax, has also been proposed in the past.

Mark Sandford

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Summary

This paper examines the debate on local government finance in England, in the run-up to the anticipated General Election in 2015.

Local government finance in England has experienced substantial changes under the 2010-15 government, including the introduction of the Business Rates Retention Scheme and substantial reductions in funding. Councils have responded to reductions in their spending power by participating in other Government initiatives, such as City Deals and LEPs; reducing or redesigning services; and collecting more local taxes where possible. During 2013 and 2014, some publications have sounded warnings about the future financial viability of some local authorities.

The 2010-15 government has also made changes to the way in which local government funding is distributed between local authorities, dampening the role played by needs assessment.

There are limits to local authorities' capacity to raise council tax and business rates to compensate for reductions in central funding. Council tax rises over a specified percentage (2% in 2014-15) are subject to a binding referendum, whilst authorities have little control over the amount of business rate revenue raised. Also, different authorities have very different taxbases and thus very variable capacity to raise extra revenue in this way. Neither tax is likely to provide authorities with a major source of extra revenue.

Local authorities have been using a number of strategies to cope with reduced funding, including community budgets, city deals, efficiency savings, combined authorities and shared services. Discussion of further structural reform of local government, to establish unitary authorities in two-tier areas, has increased through 2014, though the present Government has ruled this out for the duration of the 2010-15 Parliament.

There are a number of ways in which council tax and business rates could be adjusted to allow local authorities greater flexibility over revenue raising. Some of these require primary legislation, and some do not. Besides this, some additional tax raising powers exist, such as the power to levy a congestion charge and a workplace parking levy. A local income tax, either replacing or complementing the council tax, has also been proposed in the past.

The paper also includes a guide to further reading on this subject.

1 Introduction

The 2010-15 Parliament has seen significant changes to the funding of local authorities by central government, and the impacts of those changes have excited much debate within the local government world.

Change in local government finance is not new. The way in which central funding is allocated amongst local authorities, the degree to which that funding is ring-fenced, the overall amount of money, and local authorities' powers to raise their own revenue, have been subject to constant change since the mid-19th century. Central government has directed or influenced many of these adjustments.

What distinguishes the changes in 2010-15 from previous developments is the scale of reductions in the overall amount of central government funding. The degree of change has not only led to numerous proposals for reform to the system of local government funding, but also triggered debates about the sustainability and purpose of local government, its structures, and its methods of service delivery.[1] Some publications have claimed that the trajectory of reductions will lead to financial or service failure in some local authorities, whilst others have encouraged local government to address the changes by transforming how it delivers services, including managing demand. The Government argues that good management and efficiency will enable local authorities to meet the challenges that they face. It has also emphasised that reductions to local government funding must be seen alongside reductions in public sector spending more broadly in the current economic situation. Brandon Lewis, minister for local government, has said:

> …every bit of the public sector must do its bit to pay off Labour's deficit, including local government, to account for a quarter of all public spending….The autumn statement ensured that local government is protected from further spending reductions for 2014-15 and 2015-16. Councils now have the stability and certainty to plan their budgets and move ahead with transforming local services and ongoing efficiencies, which they absolutely need to do.[2]

1.1 Localisation and centralisation

The debates arising in the last few years have become entangled with a debate of earlier vintage. This is the idea that UK local government is over-dependent on central government; that this situation could and should be reversed via greater own revenues and less central government interference; and that the outcome would be better policy, better public services and a more buoyant economy. Many recent reports, without necessarily supporting this general narrative, have argued for local authorities to assume powers in particular policy areas, or to be given additional powers to raise their own revenue.[3] Few recent commentators have argued for greater central co-ordination, or defended central government

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1 Inquiries and commissions under way at the time of writing include: an independent commission on local government finance launched by the Local Government Association (LGA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) in January 2014; the City Growth Commission, run by the Royal Society for the Arts (RSA) and the Core Cities Group; and the IPPR/PwC Decentralisation Decade project.

2 HCDeb 7 Jan 2014 c55WH

3 For example: Iain McLean and Alistair MacMillan, *New Localism, New Finance*, NLGN, 2003; TaxPayers' Alliance, *Tax 2020*, 2011; Tony Travers and Lorena Esposito, *Nothing to Lose but your Chains*, Policy Exchange, 2004; London Finance Commission, *Raising the Capital*, 2013; ODPM, *Balance of Funding Review*, 2004; New Economics Foundation, *Localism: Unravelling the Supplicant State*, 2009; Commission on Local Governance, *Free to Differ: The Future for Local Democracy*, LGIU, 2002; Ed Cox, *Five Foundations of Real Localism*, IPPR, 2010; Political and Constitutional Reform Committee, *Prospects for codifying the relationship between central and local government*, HC656-I, 2012-13, 2013; Communities and Local Government Committee, *Devolution in England: the case for local government*, HC 503 2013-14, 2014.

supervision or powers of intervention. Despite this, there are legitimate arguments in favour of central oversight of local government spending. Examples include:

- Local authorities' spending and revenue-raising decisions can have a significant influence, cumulatively, on national macroeconomic policy. There have been examples of sub-national authorities running up substantial debts in other states, such as regional governments in Spain. It is legitimate for central government to pre-empt such difficulties;

- Because much local government funding consists of central government grants, it can be argued that local authorities should be accountable to central government for how they spend the money. Central grants are often linked to centrally-determined policies, and the Government has a legitimate interest in ensuring that those policies are successful. This rationale underlay the Comprehensive Performance Assessment regime;[4]

- English local government has a role in delivering many vital Government policies and key public services, including social services, cultural services, public health, waste, and transport. Governments have long tried to ensure equal access to these services across England, to avoid a 'postcode lottery' – where access to services differs between areas because of local policies. So it is legitimate for central government to take an interest in how money allocated to these services is spent.

Such arguments are not currently emphasised by the major political parties, each of which is committed in one form or another to localism.

This paper analyses three dimensions of the debates on local government finance. These are likely to influence the approach to local government of the government elected in May 2015:

- The potential impacts of reductions in levels of central government funding of local authorities;

- Debates about the distribution of grant revenue **between** local authorities;

- Concerns about the impact of local taxation, in particular business worries at the levels of business rates; and debates over the form and level of local taxes.

1.2 Territorial coverage

This paper only covers local government funding in England. Local government funding is devolved to Scotland, Wales and Northern Ireland.[5] In Scotland, the Convention of Scottish Local Authorities (COSLA) has launched a Commission on Strengthening Local Democracy, which produced an interim report in April 2014.[6] In Wales, the Williams Commission, published in early 2014, produced extensive proposals for local government reorganisation in Wales. In Northern Ireland, elections took place in 2014 to 11

[4] The Comprehensive Performance Assessment (CPA) was an inspection and improvement regime which ran between 2002 and 2009. It assessed local authority performance on behalf of central government against a wide range of criteria. Historical documents are available on the Audit Commission's website.

[5] Some of the funding changes discussed in this paper attract 'Barnett consequentials' – i.e. changes to the English system may lead to more, or less, funding being provided to the devolved bodies. The devolved bodies retain the power to spend their block grant funding as they see fit.

[6] Commission on Strengthening Local Democracy, *Local People, Local Power, Local Purpose*, April 2014.

new local authorities, replacing 26 district councils: the reorganisation is due to complete in April 2015.[7]

Until April 2013, there were many similarities in the structure of funding in England, Scotland, Wales and Northern Ireland. However, the English system was altered considerably from 2013-14, due partly to the introduction of the Business Rate Retention Scheme under the *Local Government Finance Act 2012* (see section 4.2).

[7] Introductions to the local government funding systems in Scotland, Wales and Northern Ireland are available from the devolved Government / Executive websites.

2 Changes to local government funding

2.1 Sources of local government funding

Local government has long received substantial grant funding from central government. The provision of central funding has largely followed individual central decisions, rather than a strategic view of local and central roles. In the first half of the twentieth century, most central grants were 'ring-fenced' – that is, they could only be spent on specified matters. Today much local government funding may be spent as local authorities see fit.

The most important components of central funding for local government today are:

- Settlement Funding Assessment (roughly corresponding to the 'formula grant' used before 2013-14). This can be spent as local authorities see fit, and forms most of the central funding available to them: it is the main subject of discussion of this paper;

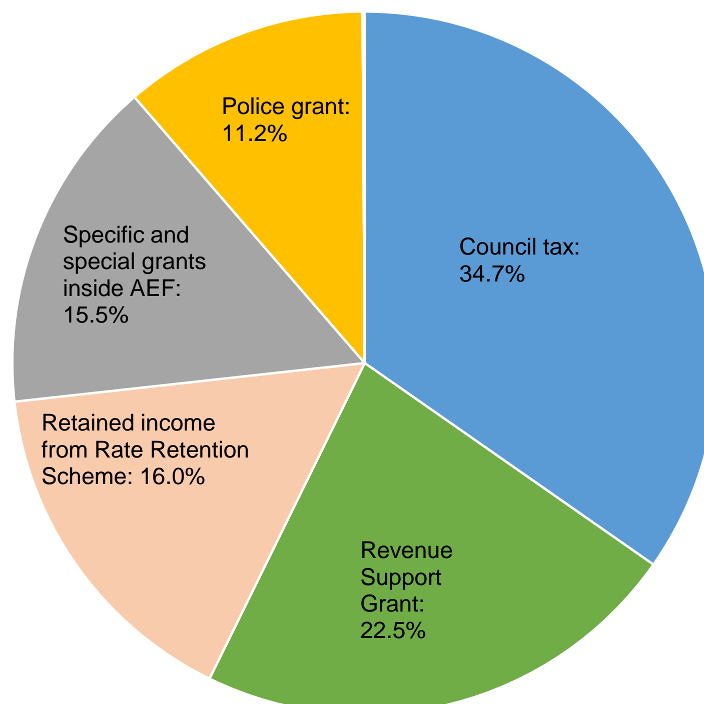
- Police funding – paid by the Home Office to Police and Crime Commissioners (previously to police authorities);

- Dedicated Schools Grant – paid by the Department for Education direct to schools. This formed part of formula grant until 2006, at which point it became ring-fenced. Local education authorities that provide joint services for their schools receive a 'top-slice' of this grant;

- Other grants, including the Better Care Fund, the Public Health Grant, and various smaller grants. Details of these can be found on the Government's web pages explaining 'spending power'.

Chart 1 shows the proportion of each source of funding for local authorities as a whole for 2013-14. The chart does not include Dedicated Schools Grant, which no longer passes through local authorities.

Chart 1: Local government non-schools revenue, 2013/14



2.2 The Settlement Funding Assessment

Each year, the Secretary of State for Communities and Local Government delivers the Local Government Finance Settlement, setting out the funding to be paid by the Department for Communities and Local Government (DCLG) under the local government expenditure limit (the total funding available under the budget heading of 'local government'). Most of this is made up of the Settlement Funding Assessment (SFA), which consists of the local share of retained business rates (see below), topped up with Revenue Support Grant. Before the introduction of the Business Rates Retention Scheme, an equivalent general tranche of funding, known as 'formula grant', was distributed. Both these grants are and were not ring-fenced, and could be spent as local authorities see fit.

The amount of money distributed, previously via formula grant and now via the SFA, has been reduced significantly between 2010-11 and 2014-15, with further reductions planned for 2015-16. As mentioned, this took place in the context of substantial cuts to the budgets of most departments of state, as part of the Coalition Government's plan to reduce the deficit from May 2010 onwards. On assuming office, the Government said that the most urgent task facing the UK was to implement an accelerated plan for reducing the budget deficit.[8] Public spending reductions are contributing 80% of the consolidation, with the remainder being achieved through increased tax revenues.[9]

Some areas, such as the NHS,[10] have been protected from spending reductions. Amongst unprotected departments, of which DCLG is one, spending has decreased by an average of 17% between 2010/11 and 2014/15. Current plans suggest that unprotected departments could see further spending reductions of around 22% between 2014/15 and 2018/19.[11]

By contrast, local government spending rose on average by 4% in real terms between 1999 and 2009. A Parliamentary Answer on 18 July 2013 estimated that, in 2015-16, an extra £7 billion would be needed to bring local government grant funding back to the levels of 2010-11.[12]

Graph 1 shows the cumulative changes in formula grant / SFA funding during this period, and Graph 2 the change each year in relation to the previous year. These graphs come with a caveat: the contents of the SFA, and the formula grant before it, change from year to year. External grants may be rolled in, or funding streams may be removed. The Government's practice is to issue an 'adjusted' figure for the previous year alongside each year's settlement, to allow the new year's figures to be compared with those for the previous year. This means that these graphs' comparisons across a range of years can only be approximate rather than exact.[13]

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8 HM Treasury, *Budget 2010*, p1, March 2010.

9 HM Treasury, *Budget 2014*, para 1.48 – 1.52, March 2014.

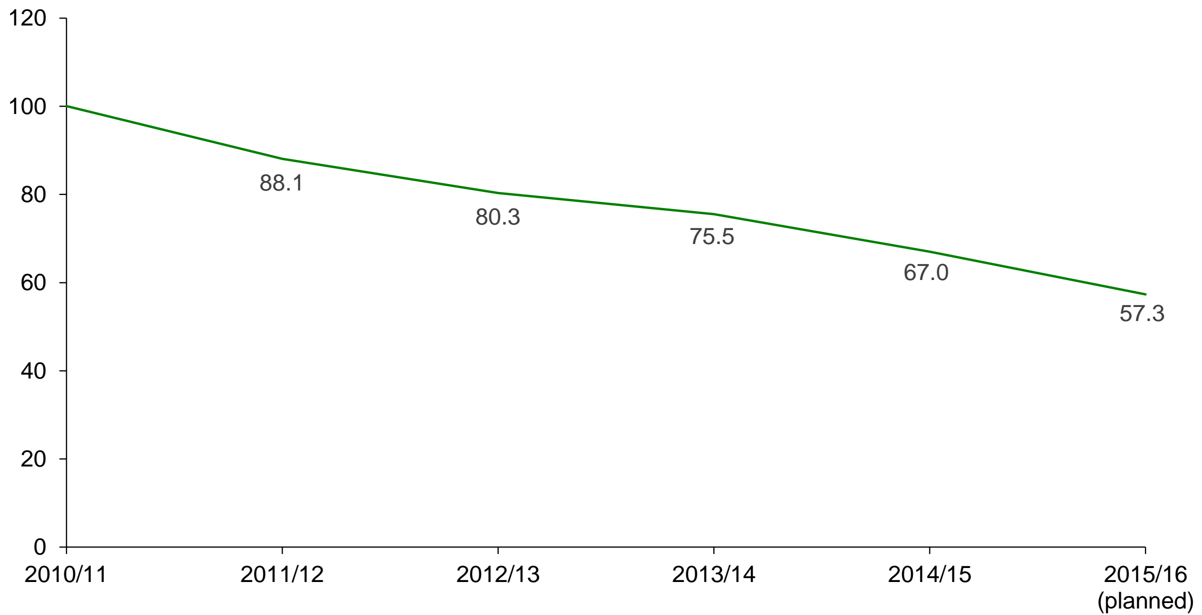
10 Protected areas included NHS, schools and overseas aid.

11 Institute for Fiscal Studies. *Budget 2014 analysis: Economy bouncing back more strongly but policy choices have increased long-run risks to the public finances*, March 2014. Across protected and unprotected departments spending reduced by 8.9% during 2010/11 – 2014/15. Further reductions of 11.9% are expected between 2014/15 and 2018/19.

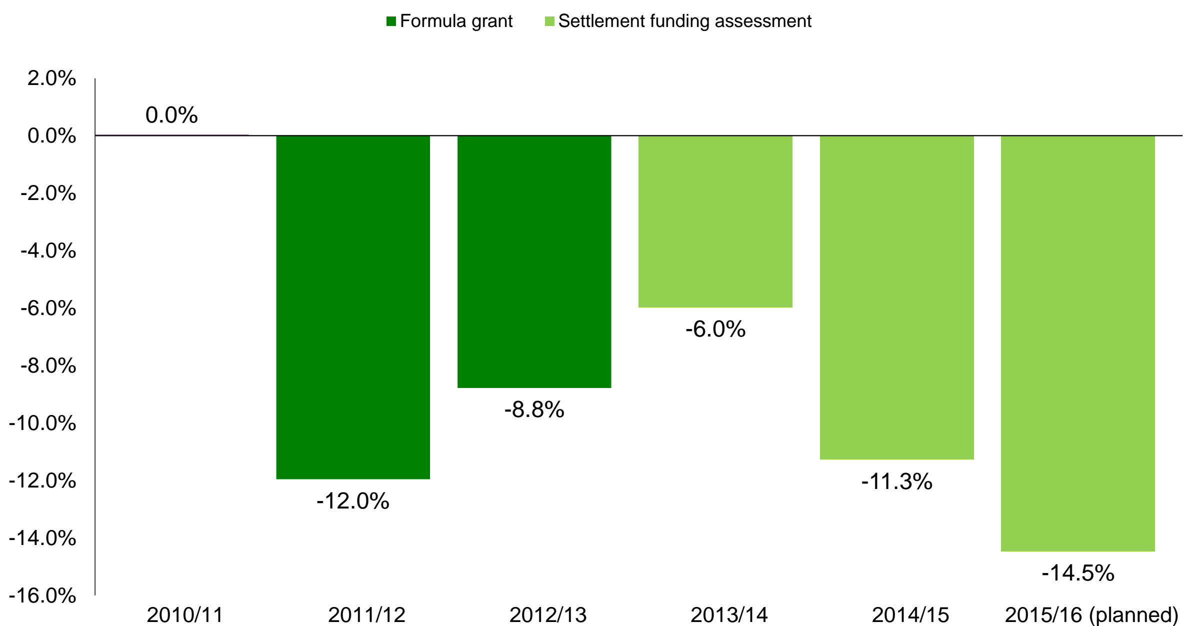
12 HCDeb 18 Jul 2013 c906W

13 These graphs are sourced from the Local Government Finance Settlements in the respective years. In each case, the reduction in a given year relates back to the previous year's adjusted figure. Cumulative figures for the period covered are approximate.
The figures do not include police authorities.

Graph 1: Index of annual change in Formula Grant/Settlement Funding Assessment
Real terms: 2010/11=100



Graph 2: Annual % change in Formula Grant/Settlement Funding Assessment
Real terms. 2013/14 prices



2.3 Spending power

The process of determining the levels of the SFA is explained in the Government's *Guide to the Local Government Finance Settlement in England*.

The Government introduced the concept of 'spending power' for each local authority in the 2011-12 local government finance settlement. 'Spending power' constitutes a wider

assessment of each local authority's income, including council tax receipts and other funding streams, such as the New Homes Bonus, the Better Care Fund, and the Public Health grant. The Government describes 'spending power' as follows:

> Spending power or revenue spending power is an estimate of the amount of funding available to each authority to spend on their core services. It is made up of estimated council tax and business rate income, Revenue Support Grant and New Homes Bonus plus a number of government grants excluding those for education and policing.[14]

The concept of spending power therefore takes account of the potential for local authorities to raise their own income, plus the effects of some central grants outside the SFA, such as the Public Health grant, which have been passed across to local government since 2013. These grants are treated as 'new money' within local government funding, and their inclusion means that the reductions in spending power are smaller than the reductions in SFA. This is shown in table 1, which sets out the actual and planned percentage reductions in the SFA between 2013 and 2016, and the reductions in revenue spending power between 2013 and 2016.

Table 1: Annual % change in Settlement Funding Assessment and Revenue Spending Power, 2013/14 - 2015/16

	Settlement funding assessment		Revenue spending power	
	England	England except GLA	England	England except GLA
cash terms				
2013/14	-4.1%	-4.2%	-1.3%	-1.3%
2014/15	-9.4%	-9.8%	-3.1%	-2.9%
2015/16 (planned)	-13.2%	-13.8%	-2.0%	-1.8%
real terms [1]				
2013/14	-6.0%	-6.1%	-3.3%	-3.3%
2014/15	-11.3%	-11.7%	-5.1%	-4.9%
2015/16 (planned)	-14.5%	-15.1%	-3.5%	-3.2%

Notes:

[1] Figures adjusted for inflation using HM Treasury GDP deflators consistent with OBR Autumn Statement 2013

Sources:

DCLG. Local Government Finance Settlement 2014/15, and previous years

HM Treasury GDP Deflator

[14] DCLG, *A guide to the local government finance settlement in England*, 2013, p.5.
An exchange of letters took place between the DCLG and the chair of the House of Commons Communities and Local Government Committee in late 2013, regarding a Treasury claim that spending power would reduce by 2.3% in real terms from 2014-15 to 2015-16. The debate attracted some attention in the local government press. The figures underlying this claim have not been released. See Ruth Keeling, "'Discredited' 2.3% figure confusing the public", *Local Government Chronicle*, 10 October 2013; correspondence published by the *Municipal Journal* on 16 October 2013; and the Letter from the Chief Secretary to the Treasury re Local Government finance dated 9 December 2013.

The reductions in grant funding (and spending power) for individual authorities will differ from the figures given here. Figures for individual authorities are provided in the annual local government finance settlement documents.[15]

2.4 Councils' responses to the changes

Councils have responded to the prospect of reduced funding by cutting back on discretionary spending and services; reducing staffing and changing contracts where possible; and by trying to raise more money locally by charging for services and improving business rates and council tax collection rates.

Besides this, the funds provided in the funding settlement are not the whole story as regards local spending. Local authorities have opportunities to influence a number of new policies introduced by the Government.

Local Enterprise Partnerships (LEPs) have been formed in all areas across England. They can bid for resources from the Single Local Growth Fund, have been allocated infrastructure funding from the Growing Places Fund, and will have a leading role in the spending of the 2014-20 round of the European Regional Development Fund (ERDF). Local authorities can influence LEPs' spending and priorities, even though LEPs are private sector-led bodies.[16]

The Government has also made extra money available to some local areas via City Deals. These are individually-agreed deals between the Government and local city areas, often led by the relevant LEP. This too is a route for local government to influence the spending of public money.

Some authorities have developed income streams of their own through one form or another of trading services, as an alternative to raising local taxation. For instance, some have experimented with developing commercial property portfolios. The rent from commercial property can provide a substantial income stream, particularly for district councils. Authorities can also create wholly-owned companies which can trade on a commercial basis, and return profits to the authority.

Local authorities have thus already adopted several ways of reducing outgoings and providing their services on a more efficient basis. Some of these are outlined in Section 5 of this paper.

2.5 Concerns over financial viability of authorities

However, efficiency savings and innovative initiatives are not necessarily able to absorb any and all future reductions in funding. Local government, and other commentators, have warned that the period from 2017 onwards may pose far greater challenges for local authorities than they have faced so far.

A Local Government Association (LGA) report published in mid-2013, *Future Funding Outlook for Councils,* contained a number of models for the state of local authority finances in 2019-20. Its modelling included assumptions about efficiency savings, the use of reserves, projected further reductions in central government funding, and expected growth in service demand. It suggested there would be a £14.4 billion gap between funding available to authorities and projected expenditure in 2019-20.[17] In response to attention being drawn to the levels of financial reserves held by local authorities,[18] it stated that using councils'

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[15] DCLG, *Final local government finance settlement, 2014-15*.

[16] For further details, see the Library's standard note *Local Enterprise Partnerships* (SN 05651).

[17] LGA, *Future funding outlook for councils*, 2013, p.16.

[18] See, for instance, HCDeb 4 Feb 2013 c19.

reserves to mitigate spending cuts would have no significant impact by 2019-20.[19] The report argued that the provision of statutory services would take up an increasing proportion of council spending by 2019-20, leaving 20% of available funding for all other services compared with 44% in 2010-11:[20]

> Reductions on this scale leave councils vulnerable to legal challenge. Many of these service blocks have statutory elements which may not necessarily be prescriptive but have already proven to be highly contested, such as spending on libraries and road maintenance.[21]

The Audit Commission report *Tough Times*, published in November 2013, suggested that 8% of local authorities "present a current and ongoing financial risk", and a further 28% "present a future financial risk".[22] Similarly, Grant Thornton's report *2016 tipping point?* found that a number of councils felt that they would hit a financial 'tipping point' around 2016. This might involve being unable to meet statutory duties; being unable to set a balanced budget; service disruption; industrial action; or a combination of these. The report suggested that authorities' response to this risk should focus on:

> ...investments in the commercial property portfolio; increased commercialisation of services and local authority trading; regeneration and inward investment to boost local economic activity; and generating higher income from business rates.[23]

The National Audit Office report *Financial sustainability of local authorities* presented a less bleak outlook for authorities in early 2013:

> We considered a range of indicators, such as levels of local authority reserves and projections of service demand, to see what they showed about financial sustainability. Individually and collectively, however, they proved inconclusive. Moreover, financial sustainability depends on factors that go beyond the financial balance sheet. These include the strengths of financial management and governance arrangements. Coming to a view of the likely financial sustainability of a local authority using a single set of indicators is therefore problematic, and needs to consider local circumstances.[24]

In law, local authorities cannot become insolvent. However, they are required by law to provide specific services ('statutory services'), such as adult social care and children's services; authorities which failed to do so would be in breach of their statutory duty. Many other services are discretionary: the authority can choose whether to provide them. However, the distinction between these two definitions is imprecise:

> Many major services – such as social services – are neither wholly statutory nor wholly discretionary. 'Statutory' sounds obvious – the council has to do it because it's the law. But… that law often just sets the framework for the provision of a new government service, with local authorities…being left considerable discretion over both the level and organisation of the provision. 'Mandatory' provision is different again: regardless of the actual law, a council provides a service, or provides it to a certain standard, because not to do so would leave it open to possible legal challenge. Only then come the wholly discretionary services.[25]

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19 LGA, *Future funding outlook for councils*, 2013, p.20
20 Ibid., p.19
21 Ibid., p.19
22 Audit Commission, *Tough Times 2013*, 2013, p.6
23 Grant Thornton, *2016 tipping point? Challenging the current*, 2013, p.4
24 National Audit Office, *Financial sustainability of local authorities*, 2013, p.31
25 David Wilson and Chris Game, *Local government in the United Kingdom*, 5th ed., 2011, p.215-6

The new model of funding, where local authorities' revenue is more dependent on business rates income and hence on economic development (see section 4.2 below), increases authorities' exposure to risk: commercial and trading activities, and business rate revenues, are more volatile sources of revenues than block grants from central government. Equally, they also offer more opportunity to local authorities to consciously grow revenue via their policy decisions. The availability of new revenue streams such as the Better Care Fund (see below) and public health funding also offer new opportunities to join up functions and reduce costs.

The Government has insisted that there is further scope for local authorities to find efficiencies, and that it is not possible to find additional central funding in the context of the current economic situation. Brandon Lewis, the Minister for local government, said in January 2014:

> There is significant scope—with small things as well, in some cases—for small authorities with a small budget of £5 million to £20 million to merge back-office services to do more joint working. Councils that are doing that are finding up to 18% in savings—substantial money. They can get more for less that way and do better with the £60 billion-a-year procurement budget that local authorities have; they could tackle the £2 billion of local fraud that is still there; they could reduce the £2 billion of lost money in council tax arrears, with arrears substantial in some areas such as Liverpool; or they could use their record £19 billion of reserves and get better value for money from the billions they have in property assets.
>
> …….
>
> Councils still have a long way to go in terms of the work they can do to be efficient. They can look at the transformation fund—there is a new fund of £330 million. There is a £200 million extension of the troubled families programme to support 400,000 more families that need help and to build on the progress that has already been achieved. There is £100 million to enable efficiencies in service delivery; a £30 million revenue fund; and £45 million to drive transformational change just in the fire and rescue service.[26]

The National Audit Office has stated that the Government has latterly begun work analysing the effect of changes in the funding system on individual local authorities.[27]

[26] HCDeb 7 Jan 2014 c57WH
[27] National Audit Office, *Council Tax Support*, HC-882, 2013-14, 2013, p.33

3 How funding is distributed between local authorities

Alongside debates on the overall quantities of central funding available to local authorities, debate has taken place over how funding should be allocated between authorities. Local authority areas across England have very different needs as regards social welfare, education, housing and transport; and there are also wide variations in local taxbases, with implications for how much money can be raised through local taxation. How the distribution of funding should reflect these variations, if at all, has long been a matter of contention.

3.1 The historical practice of grant distribution

Since 1929, central government grant funding has been used to some degree to promote equalisation – that is, to ensure that the funding available to local authorities bears some relationship to the need for their services in the local area. The distribution of funding has taken into account the resources available in local areas (broadly, their ability to raise taxes) and the needs of local areas for public services. Reforms in 1948 and 1959 broadened the influence of equalisation, applying it to most central government funding.

Between 1981 and 2013, a variety of systems operated under which central government would estimate the cost of providing a standard service, calculate the revenue produced by a 'standard' level of local taxation, and supply an appropriate level of formula grant to make up the difference between the two.[28] Assessment of the cost of a standard service was managed through 'service blocks', which allocated each council a sum in respect of education, a sum in respect of social services, and so on. Each service block in turn contained a series of sub-blocks. Each sum was calculated on the basis of a series of complex needs-related formulae: for instance, education funding might give a certain weight to the number of children in receipt of free school meals, and a different weight to the number with a statement of special educational needs. From 1990 to 2003, this procedure was known as the *Standard Spending Assessment*. It was reconstituted as the *Formula Spending Share* following the 2001 White Paper *Strong Local Leadership: Quality Public Services*, with some adjustments to the formulae used in the calculations. This was replaced by the *Relative Needs Formulae* in 2006 (also known as the 'four-block model').

The sums allocated via service blocks were amalgamated into the general *formula grant*, which was not ring-fenced. So, whilst the amount of funding available to local authorities was based on an assessment of what they needed to provide their services, decisions on how the funds were spent in practice were taken by local authorities themselves. The principle behind the system was that local authorities should be able to provide a similar standard of service for the same cost across England.

There were many extra complexities within the system, such as additional ring-fenced grants, and 'floor damping' (a mechanism to limit the impact of annual changes), but its general principles remained constant during this period. Importantly, the use of up-to-date statistics in the funding calculations allowed funding levels to take account of up-to-date calculations of need.[29]

The funding levels under all of these systems were calculated entirely by central government, with no input from local government itself apart from ad hoc lobbying for extra money throughout the process. It has been suggested that central government policy priorities have

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[28] See Stuart Adam, Carl Emmerson and Anoushka Kenley, *A Survey of UK Local Government Finance*, Institute for Fiscal Studies, Briefing note 74, 2007, p.17. Under this system, the difference between redistributed business rates and Revenue Support Grant was notional, as the Government controlled the apportionment of both.

[29] A fuller explanation of the 'four-block model' is available in DCLG, *The Local Government Finance Settlement in England: A Guide to the Basics*, January 2012

influenced the distribution of funding in the past.[30] Decisions made using a system to allocate finance in this way - for instance, what weight to give to the different measures of need within the formula – cannot avoid having political implications.

3.2 The funding distribution system from 2013

Under the current scheme for distributing funding, central government calculates the total SFA funding for each local authority. This consists of each authority's allocation of the 'local share' of business rates (see section 4.2), topped up with Revenue Support Grant.

The levels of SFA allocated to each local authority for 2014-15 and 2015-16 have been determined purely by reductions to the amounts allocated under each service block for 2013-14. Unlike in previous years, need will not be re-assessed annually: SFA allocations will be based on 2013-14 need levels until the Business Rates Retention Scheme is reset in 2020.[31] Any changes in need during this time will not be taken into account in the calculation of funding. This process is explained in further detail in the Library standard note *The Local Government Finance Settlement 2014-15*.[32]

Brandon Lewis, Minister for local government, said that this change:

> offers councils further freedoms, flexibilities and incentives to build more homes; to create more local jobs; to boost business and enterprise; and, ultimately, to provide more and better first-class services for their local residents.[33]

He has also described the new thinking behind Revenue Support Grant as follows:

> The money that is distributed through grant predominantly… is in order to make sure they can provide the core services. Depending on where you are, different councils will make decisions on what their primary focus is and what their priorities are.[34]

Mr Lewis has also confirmed that the principle that the same level of council tax should provide the same level of service in any given local authority, which underlay much of the funding debate during the 1990s and 2000s, is no longer in operation.[35]

The changes to the funding system were intended to bring about a closer relationship between local authorities' own decision-making, particularly with regard to the local economy, and the amounts of revenue they would gain. It was intended to provide a direct incentive to develop the local economy and increase the number of houses built, on the basis that this would lead to increases in business rates and council tax revenue which would be retained locally. This contrasted with the previous system, where the distribution of revenue was based principally on needs assessment, with fewer incentives to encourage economic development.

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30 For additional detail on this, see Tony Travers and Lorena Esposito, *Nothing to Lose but your Chains*, 2004, p.70; Alex Gibson and Sheena Asthana, "A Tangled Web; Complexity and Inequality in the English Local Government Finance Settlement", *Local Government Studies* 38:3, 2012, pp.301-320

31 See DCLG, *Business rates retention: policy statement*, 2012, p.24, which suggests that a new needs assessment will take place when the retention scheme is reset in 2020.

32 See *The Local Government Finance Settlement 2014-15,* p.17 and 23. See also DCLG's report *The Local Government Finance Report (England) 2013-14.*

33 HCDeb 12 Feb 2014 c936-7

34 Communities and Local Government Select Committee, *Local Government Finance Settlement 2014-15*, evidence, 27 Jan 2014, Q5

35 Ibid., Q7

3.3 Differential effects of the new system on local authorities

The changes to the funding system have led to different changes to spending power being experienced by different authorities. The fall in spending power in 2014-15 was smaller in shire counties than in shire districts and unitary authorities. It was also less in the southern regions of England than in the Midlands and northern regions: for instance, the North-East saw a fall in spending power of 4.0% whilst the South-East saw a fall of 1.2%. Comparison with indices of deprivation indicates that less deprived authorities, on average, saw a slightly smaller fall in spending power than more deprived authorities. Further details are available in the Library research paper *Local Government Finance Settlement 2014/15*.

The variation between local authorities in terms of changes in spending power in the 2014-15 settlement has been remarked on by Members and commentators. For example, on 7 January 2014 Gisela Stuart MP said:

> At the moment, those areas in the greatest need are being cut most. … In Birmingham in 2014-15, using the Government's preferred measure – that of spending power – we will lose £145.59 per dwelling, a cut of 5.3%. The national average is £71.58. Leafy Wokingham…. gets an increase in funding of £5.20, or 0.3%.[36]

The mechanism which has been used to reduce the SFA reduces the amount each authority receives in each block of the 'four-block model' by a fixed percentage each year. This would imply, at first glance, that local authorities would be affected to the same degree by the reductions (or, indeed, by increases). However, a number of other factors influence levels of spending power:

- Council tax benefit has been replaced by local council tax support schemes. For 2013-14 a grant was provided to fund local schemes, but this has now been rolled in to the general grant. The impact of this is that, instead of council tax benefit being allocated on a nation-wide needs basis, funding for council tax support schemes is now subject to the same level of reductions (or future rises) that apply to the SFA as a whole – i.e. no account is taken of need. The more council tax benefit was historically paid in a local authority area, the more significant the impact of this change.[37] The distribution of other individually-scaled grants (see below) will also have impacts on spending power which do not necessarily reflect needs or resources;

- Authorities with a higher taxbase raise a greater proportion of their funding from council tax. The same percentage rise in council tax will produce more money in a high-taxbase authority than in a low-taxbase authority. Thus a higher taxbase authority can increase its spending power via council tax by more than a low-taxbase authority can;

- Different authorities will have different potential for gaining funds from the Business Rate Retention Scheme and the New Homes Bonus. The extra money available through these sources is strongly influenced by local authorities' own policy, but local economic potential, and circumstances, will play a part in the effectiveness of that policy.

These factors apply to the new funding system as a whole; it is not necessarily possible to use them to explain fully the differences in funding levels between specific authorities.

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[36] HCDeb 7 Jan 2014 c34WH; see also the debate at HCDeb 3 Dec 2013 c216WH&ff

[37] A more detailed explanation of this point can be found in LGA, *Rewiring Public Services: Council Tax Support*, 2013.

3.4 'Individual scaling'

A number of additional small grants are set out in the annual local government finance settlement. Some of these, whilst not ring-fenced, have been 'individually scaled'. This means that the Government uses a separate mechanism to calculate how to distribute them between authorities, and this may be based on a needs analysis relating solely to the purpose of the individual grant. Authorities with greater need in the policy area to which the grant relates may therefore obtain additional funding overall.

For instance, council tax support grant was introduced in 2013-14 to replace council tax benefit. Each authority received 90% of the amount previously paid in their area in council tax benefit. As council tax benefit was paid on a needs basis, the initial distribution of the support grant reflected need. From 2014-15 this grant has been 'folded into' SFA and its distribution between authorities will not be altered to reflect changes in need – as explained in section 3.3.

Other specific grants that were previously individually scaled have subsequently been 'rolled in' to the SFA. When this happens, these grants become subject to the general reductions applied to the SFA, instead of being reduced (or increased) according to the need for the service in question in individual authorities. An example is the Efficiency Support for Services in Sparse Areas (ESSSA) grant, an extra £9.5 million allocated to authorities with sparse populations in 2013-14. This was rolled into SFA for 2014-15, using updated data for the process of allocation; but in future years no separate account will be taken of that data.

3.5 Holdbacks and the New Homes Bonus

'Holdbacks' may be used to alter the distribution of funding between authorities. A 'holdback' consists of the Government announcing a new grant, to promote and incentivise a particular policy, with money from the overall SFA pot. The funding is then re-distributed to local authorities on a different basis from the settlement in general.

For instance, in 2014-15, £700 million of the grant funding for local authorities was held back for the New Homes Bonus. Some authorities will gain extra funding (over and above the SFA) via the New Homes Bonus, whilst others will not. Holdbacks allow central government to provide financial incentives to local authorities to pursue particular policies.

4 Local sources of funding

A possible response to reductions in local government funding is for local authorities to raise more revenue themselves. In recent years, some authorities have developed sources of income from, for example, commercial property portfolios or from wholly-owned companies. Initiatives of this kind depend upon long-term planning, support from elected members, and economic viability, and may not be realistic options for all local authorities. Authorities also have access to a wide range of fees and charges, though the income from these is dependent on the actual services provided by the authority.

Local authorities collect two taxes: council tax and business rates (the National Non-Domestic Rate or NNDR). Both have been the subject of complaint and challenge during recent decades. The workings of these two taxes are shown below, in Boxes A and C respectively.

4.1 Council tax

Council tax has a number of strengths. The costs of collecting it are low; and it is difficult to avoid, as property cannot be moved. Average collection rates across the UK have been between 97% and 97.5% between 2008 and 2013.[38] It is a reliable source of revenue, bringing in much the same amount of revenue from year to year, which helps the local authority budgeting process. These strengths partly explain why council tax has endured, despite numerous criticisms, since its introduction in 1993.

If local authorities wanted to address reductions in funding by attempting to raise more revenue locally, increasing council tax could appear to be an obvious way to do this. However, council tax is an unlikely source of substantial additional revenue, for the following reasons:

- Its unpopularity with the public, partly (but not wholly) due to a history of above-inflation rises: this has led to a history of limits imposed by central government ('capping');
- The variation in taxbases across authorities, and its implications for equalisation;
- Its lack of progressiveness (i.e. it forms a larger proportion of household spending for less wealthy households);
- Local government's lack of control over the structure of the tax.

Unpopularity of council tax

Council tax was introduced rapidly in 1992-93 to replace the community charge. It has suffered from unpopularity since its introduction. The Institute for Fiscal Studies' *Tax by Design* offers an explanation for this:

> Council tax is an unpopular tax. There are a number of possible reasons for this. It is highly visible: 88% of tax is remitted by firms, so for the vast majority of people council tax is one of the only taxes they are asked to pay personally. This means people overestimate its importance. It also lacks buoyancy, which means that 'increases' have to be announced each year just to keep up with inflation, let alone growth in GDP…

[38] Council tax collection rates in England, 2009 to 2013. The LGA has anticipated a small fall in this figure for 2013-14 to 96.8%, due to the collection of small liabilities from individuals who were previously entitled to council tax benefit.

> But there is also evidence that people just find the idea of a tax linked to the value of their property unfair.[39]

Since its introduction, council tax rates have risen in cash terms, and often in real terms, year on year. Under the current Government, however, levels of council tax rises have fallen back: the Government has claimed that council tax has fallen by some 10% in real terms since it took office. It is relatively rare (though not unknown) for individual local authorities to reduce their council tax rates in cash terms.

Box A: Council tax

Council tax was introduced in 1993, replacing the Community Charge (the poll tax), which itself replaced domestic rates in 1990. Prior to 1990, domestic rates and non-domestic rates (business rates) formed two parts of a single system of local government rating.

Council tax is collected from the **occupants** of all domestic properties by the **billing authority** (the local authority, with the responsibility falling to the district council in two-tier areas). Where a property is unoccupied, liability normally falls to the owner.

The council tax bill is based primarily on the value of the property as at 1 April 1991. Properties are placed into one of eight bands (between A and H) by the independent Valuation Office Agency. The proportion of tax liability between the various bands is fixed under section 5 of the *Local Government Finance Act 1992* (see the table below).

A complex system of discounts and exemptions exists, including a 'single person discount' of 25%. The majority of these are fixed by legislation, although it is for the billing authority to interpret the legislation to decide on eligibility for a discount or an exemption. Local authorities have some discretion over discounts on empty properties, under the *Local Government Finance Act 2012*; and they must establish local council tax support schemes (see the Library standard note on *Council tax reduction schemes*).

Council tax bands in England

Council Tax band	Value of home estimated at 1 April 1991	Proportion of the Band D rate payable for properties in each band (the 'band ratio')
Band A	Under £40,000	6/9
Band B	£40,001 - £52,000	7/9
Band C	£52,001 - £68,000	8/9
Band D	£68,001 - £88,000	9/9
Band E	£88,001 - £120,000	11/9
Band F	£120,001 - £160,000	13/9
Band G	£160,001 - £320,000	15/9
Band H	Over £320,001	18/9

Graph 3 below indicates the national average rise in council tax rates since 1993-94. The cumulative effect of repeated rises on council tax bills is considerable. Average council tax in England rose by 149% in cash terms between 1993 and 2009; such a large and visible rise

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[39] Institute for Fiscal Studies, *Tax by Design*, 2011, p.383. The revenue of a 'buoyant' tax automatically increases with economic growth. The evidence referred to in the final sentence can be found in the 2007 *Lyons Inquiry Survey*.

in any tax inevitably risks unpopularity. The graph shows the pattern of this rise, and the subsequent smaller changes under the current government.

The unpopularity of council tax has led to continual restrictions on local authorities' discretion to set the tax since its inception. Under section 54 of the *Local Government Finance Act 1992*, central government had the power to 'cap' council tax. Initially, this involved setting a 'universal cap' – i.e. a maximum percentage by which council tax could rise - before local authorities set their budgets. This was replaced by capping of individual authorities under the *Local Government Act 1999.* The *Localism Act 2011* replaced the power to cap council tax with a requirement for any rise in council tax over a specified percentage to be subject to a binding local referendum. The percentage is specified each year by the Secretary of State (see Box B). No referendum has been held under these provisions so far. In 2014, Hilary Benn, the Shadow Secretary of State for communities and local government, indicated that a future Labour government would retain the referendum process.[40]

Box B: Council tax referendum principles

Council tax referendums would have been required for council tax rises above the following thresholds in each year:

2012-13

Billing authorities: 3.5%
City of London: 3.75%
Fire and rescue authorities: 4%
Police authorities: 4%
Parish and town councils: no figure set

2013-14

Parish and town councils: no figure set
All other authorities which had a basic amount of council tax in the lowest quartile of their category of authority: 2% or £5.00 (whichever figure is higher);
All other authorities: 2%

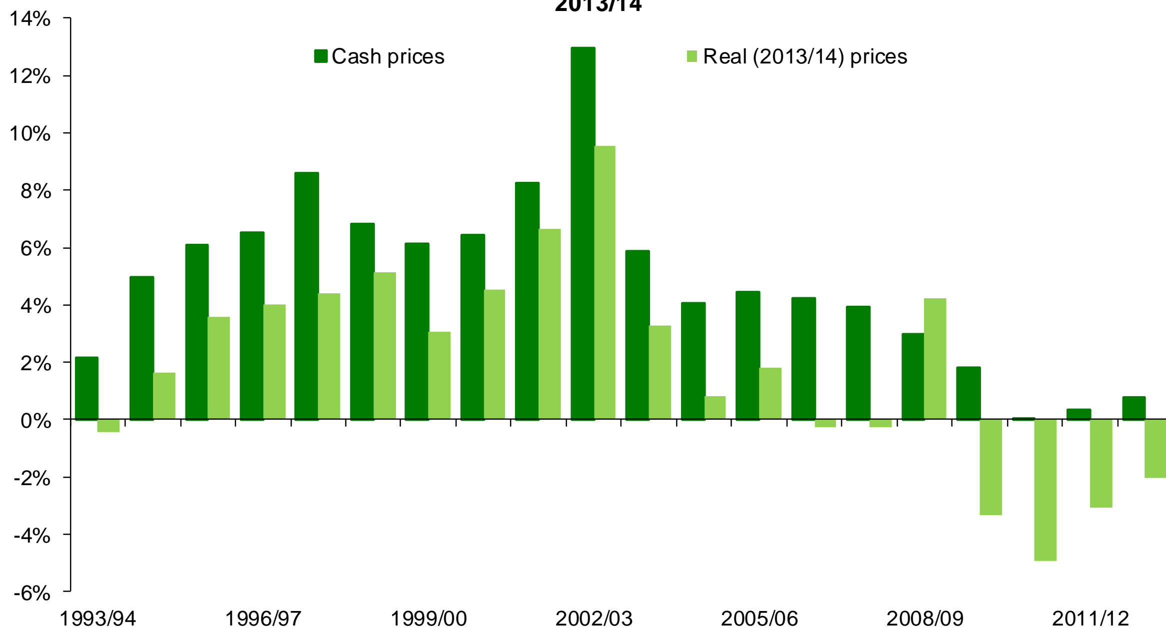
2014-15

Parish and town councils: no figure set
All other authorities: 2%

The current government has encouraged local authorities to freeze council tax. In each financial year between 2011-12 and 2014-15 it provided a 'freeze grant' to any authority which did so. Each year's freeze grant was worth the equivalent of a percentage rise in council tax to each local authority which took it up: 2% in 2011-12; 2.5% in 2012-13; 1% in 2013-14 and 2014-15.[41] The Government's application of downward pressure on council tax via the referendum and freeze grant provisions seems to have found favour with the public.

[40] Keith Cooper, "Labour plans to keep council tax referendums", *Local Government Chronicle*, 20 Mar 2014.

[41] Each freeze grant became part of the authority's base SFA level, with the exception of the one paid in 2012-13. This is to ensure that authorities that accept the freeze grant do not lose out in the long term. A rise in council tax brings in additional money for the year after it is set, and for all subsequent years, because it becomes part of the new 'baseline' of council tax. This would not happen to the freeze grant if it were not rolled in to the SFA.



Prices have been adjusted for inflation using April's RPI
sources: DCLG. Local Government Financial Statistics 2013; HC Deb; ONS. CPI and RPI reference tables

Variation in taxbases across authorities

To increase its overall revenue by 1%, a local authority would need to raise council tax by a larger percentage than 1%. Because local taxbases vary, this could be anything from 1.5% up to 8%. This effect is known as 'gearing'. It affects all local authorities to some extent (because all authorities receive some central funding), but its impact is sharpest in those which raise only a small proportion of their own funding. It means that in low-taxbase areas in particular, a rise in the council tax rate which was too large to be politically palatable would produce relatively little extra revenue in any case.[42] For instance, in 2013-14, Hartlepool Council collected £35.8 million in council tax. Even a rise of 10% in this level of revenue would have provided only £3.58 million extra, in the context of Hartlepool's overall budget of £99 million in that year.

Regressiveness of council tax

Council tax liability takes little account of ability to pay. Households in lower bands tend to pay a greater percentage of their outgoings in council tax than do households in higher bands. Moreover, the system demands less tax, as a proportion of sale value, from the largest properties: liability for even the most valuable houses in Band H can be no more than three times that of the smallest houses in any given local authority (see Box A above). The Labour Government's *Balance of Funding Review* concluded in 2004:

> There is a clear case for reviewing council tax bands and the ratios between them at the time of revaluation. However, particular care is needed to ensure that council taxpayers on low incomes living in high value properties are not unfairly affected.[43]

[42] This effect could also apply to other local taxes – for instance, a local income tax – if the other tax only produced a small proportion of local revenue. If the tax, or a basket of local taxes, produced a large proportion of local revenue, the effect would be less pronounced.

[43] ODPM, *Balance of Funding Review,* 2004, p.36

Changing this structure faces considerable political obstacles. The Labour Government began a revaluation process in 2003, but cancelled it in 2006. Some recent reports have indicated support for a revaluation, but the present Government has ruled this out during the 2010-15 Parliament.[44]

Lack of control over tax structure

Local authorities may set the level of council tax in their area each year (within the limits enforced by government). However, they have no control over the structure of the tax, set out in Box A. Local authorities cannot add council tax bands, vary the values of properties within each band, or vary the proportion of the Band D bill payable by properties in each band.[45] They also have no control over the timing or the nature of revaluations for council tax purposes. No revaluation has taken place in England since the introduction of council tax in 1993, and today's property bandings are based on property sale values as at 1 April 1991.

4.2 Business rates

The 'business rates' system is formally known as the National Non-Domestic Rate (NNDR), introduced in 1990.[46] It applies to non-domestic properties in England. Before 1990, the multiplier (see Box C) was set, and the rate revenue retained, by local authorities.

From 1990 to 2013, National Non-Domestic Rate revenues were passed to central pools in England, Scotland, and Wales, and redistributed amongst local authorities on a needs basis as part of formula grant. From 2013-14, the Business Rate Retention Scheme provides for local authorities in England to retain up to 50% of the growth in their business rate income. An account of how the Scheme works can be found in the Library paper *The Local Government Finance Settlement 2013-14 and 2014-15*.

Like council tax, the business rates system is unlikely to provide local authorities with substantial additional revenue, for the following reasons:

- Current high levels of unpopularity, meaning that there will be pressure for any changes to deliver less revenue, not more;
- A relatively inflexible structure;
- Lack of local authority control over the structure of the tax;
- Incentives within the Business Rate Retention Scheme.

Business discontentment with business rates

Business discontentment with business rates is high at the time of writing. The rate system has been criticised for failing to take account of the difficulties suffered by businesses since the economic downturn from 2009 onwards; and for simply being too high. Representative organisations have called for 'root and branch' reform of the tax. The British Retail Consortium criticised the system in September 2013:

[44] For instance, see CLG Committee, *Devolution in England: the case for local government*, HC503 2014-15, 2014, pp.54-5

[45] *Local Government Finance Act 1992* s5 (4)

[46] Strictly speaking the NNDR replaced the old system of 'business rates', the levels of which were set locally, but the term 'business rates' has continued in use.

> The business rate system is no longer fit for purpose... They are the only national tax where the revenue is fixed in real terms. The tax is fiscally neutral which means it never drops, no matter what the economic circumstances... Whilst revaluations give comparators to amounts paid by other rate payers, they do not guarantee fairness when measured against turnover or profits.[47]

Box C: business rates

The National Non-Domestic Rate, or 'business rate', is collected from the **occupants** of all non-domestic properties by the **billing authority** (the local authority, with the responsibility falling to the district council in two-tier areas). Business rates bills are based on the rateable value of the non-domestic property, set by the Valuation Office Agency, multiplied by the 'multiplier' or poundage. For example:

Rateable value:	£20,000
Multiplier:	48.2p in the pound
Business rates liability:	£20,000 * 0.482 = £9,640 per annum

There are some reliefs available on business rates, including small business rate relief; charitable relief; rural rate relief; and a series of short-term reliefs introduced in the 2013 Autumn Statement. Further details can be found in the Library standard note *Business rates.*

Under the *Local Government Finance Act 1988,* all rateable values are revalued every five years for business rates purposes. The most recent revaluation came into force on 1 April 2010. Valuations are based on levels of annual rent on the 'antecedent value date' (AVD), 1 April 2008.

Sections 29 and 30 of the *Growth and Infrastructure Act 2013* postponed the date on which the next revaluation will come into force from 1 April 2015 to 1 April 2017.

The Federation of Small Businesses carried out a survey in July 2013 which claimed that business rate costs were above those of rent for one-fifth of respondents. The FSB's chairman, John Allan, said:

> The current rating system is a blunt tool for maintaining the Government's income even when everyone else's is shrinking. It takes no account of ability to pay, or changes to economic conditions. It is based on rental values but only adjusts its valuation assumptions every five years. Its treatment of empty property is tantamount to a tax on no income, and it continues to use RPI for annual tax increases because it is normally above the Government's official measure of inflation, CPI.[48]

The Business, Innovation and Skills Committee published a report in March 2014 entitled *The retail sector*, which included a discussion of business rates. The Committee concluded that "the cost of Business Rates is increasing disproportionately to the cost of rents. The result is causing critical financial difficulties for many retail businesses, especially SMEs".[49]

The Government published a consultation paper in April 2014 entitled *Administration of business rates in England*. This paper invited views on the method of valuing properties and on the frequency of revaluations. It suggested the possibility of introducing a banding system

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[47] British Retail Consortium, *Business Rates: the case for reform*, September 2013, p.2. This paper was the precursor to the BRC's paper *Business Rates: the road to reform*, 2014.

[48] "Business rates need radical overhaul, says FSB", 12 July 2013

[49] Business, Innovation and Skills Committee, *The Retail Sector*, HC 168-1, 2013-14, March 2014, p. 32

for properties similar to that used for council tax. However, it stated that the basic structure of business rates was valid:

> The government believes that business rates have an important role to play as part of a fair and transparent tax system. Business rates support the long term stability of the economy by providing sustainable tax revenues to fund public services and by raising revenue in a way that is less distortionary than many other taxes.[50]

Structure of business rates

Properties' rateable values are based on their annual rental value. The last revaluation of rateable values came into effect on 1 April 2010, based on rental values on 1 April 2008. The difference between actual rents and rateable values becomes greater as the time since a revaluation grows. Businesses have claimed that rents in some regions have fallen by up to 40% since 1 April 2008.[51]

The levels of business rates are governed by the setting of the multiplier and properties' rateable values. The *Local Government Finance Act 1988* provides for the multiplier to be increased by the level of the Retail Price Index in the September before the relevant financial year, unless the Treasury determines otherwise. In practice, until 2014-15 the multiplier was simply uprated by the maximum percentage each year.[52] This can mean that rate bills (and revenues) rise whilst business conditions are poor. In consequence, unhappiness with business rates peaks during economic downturns.[53] In cash terms, business rate revenues rose from £18.7bn in 2008-09 to £21.3bn in 2012-13. But the rise in real terms during that time is less stark (see graph 4): £21.2bn to £21.3bn in 2013 prices.

As noted above, many businesses have expressed strong unhappiness with the current levels of business rates: but at the same time, the annual rises shown in the graph below do not equate to substantial amounts of extra revenue for local authorities. This highlights that substantial additional rises in business rates would be politically unpalatable: indeed, the trend in recent years has been towards increased reliefs, funded by central government.[54]

Lack of control over tax structure

Local authorities cannot set or vary the business rate multiplier. They were able to do so until 1990, when the National Non-Domestic Rate was introduced. Nor can local authorities compel revaluations to take place, if they believe that the rates on a particular property or group of properties are artificially low or high due to their rateable values. Thus local authorities have few tools with which actually to increase rate revenue. Increasing the quantity of rateable value by granting planning permissions is likely to be the clearest route to doing so, followed by ensuring all rateable properties are on the rating list (and hence liable for business rates).

Local authorities have substantial powers to offer discounts on business rates, but have few powers to increase liabilities. The *Business Rate Supplements Act 2009* permits a local supplementary multiplier of up to 2p to be levied: however, section 68 of the *Localism Act 2011* introduced a requirement for this to be approved in a referendum by a majority of

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[50] HM Treasury / DCLG, *Administration of business rates in England,* 2014, p.5

[51] A revaluation following falls in rent would not automatically translate into reduced business rate bills. At a revaluation, the total revenue for England must remain the same, so a reduction in the total amount of rateable value would be balanced by a rise in the multiplier.

[52] 2014-15 will be the first exception to this rule. The Chancellor will uprate the multiplier by 2%, lower than the RPI in September 2013 (3.2%). Further details are available in the *Autumn Statement 2013* document, pp.45-46.

[53] For a discussion of this point see Arthur Midwinter and Colin Mair, *Rates reform: issues, arguments and evidence*, 1987, pp.83-5

[54] See for example the basket of additional reliefs offered in the *Autumn Statement 2013* (p.45-6).

businesses in the local authority area, both in terms of numbers and of rateable value. No local authority has proposed a referendum on a supplement so far.[55]

Business Rate Retention Scheme

The Business Rates Retention Scheme, introduced in 2013-14, permits local authorities to keep a proportion of the increase in business rates from 2013-14, from a baseline based on their revenue between 2010 and 2012.[56] Local authorities can retain up to 50% of the increase in business rates from 2013 to 2020: in 2020, the system will be reset, with a new baseline based on a new assessment of revenue.

The concept of business rates retention has generally been welcomed by local authorities. However, one of the effects of the scheme is greater volatility in local authority income from year to year, as income is based on actual business rate revenue, rather than a grant from the central pool which is fixed at the outset of the financial year. This will require local authorities to develop stronger financial control and risk analysis capacity. This is particularly true with regard to successful appeals against business rates. Where payments are refunded because of successful appeals, 50% of the refund will be met by the local authority; under the previous system, this risk was shared in the central pool of business rate revenue. The LGA estimated that some 17.5% of total business rates revenue was subject to appeal in 2013-14, with some councils seeing up to 45% of revenue affected.[57] To this end, the LGA has pressed for improvements to the appeal process, and better provision of information by the Valuation Office Agency (which handles appeals) to local authorities.

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55 The GLA instituted a business rate supplement before the referendum requirement was brought in, of 2p, to contribute towards Crossrail.

56 The amount retained is based on real terms increases, and is not affected by changes in the multiplier or by revaluation.

57 LGA, *Rewiring Public Services: Business Rate Retention*, 2013, p.8

4.3 Fees and charges

Local authorities may charge for many of the services they provide. Charges may not be imposed for functions relating to education, public libraries, firefighting, electoral registration or elections, though charges can be made for activities supplementary to these (such as school meals).[58] Section 93 of the *Local Government Act 2003* extended authorities' power to charge to all services provided at a local authority's discretion. This covered services where no power to charge was previously available, but does not allow authorities to charge for a service if legislation elsewhere prohibits it. Charges made under this section may not exceed the costs of provision of the service.

Tony Byrne's *Local Government in Britain* divides charges into four categories: trading charges (e.g. waste disposal, markets or passenger transport); personal services (like care for children or the elderly), often based at least in part on the ability to pay; amenities (leisure centres, parks); and fees for regulatory services (planning, building control).[59]

The Audit Commission's 2008 report *Positively Charged* suggested that local authorities' use of fees and charges as an element of financial strategy was often haphazard, taking little account of users.[60] *Positively Charged*, and the 2013 follow-up report *Income from Charging*, found that, on average, 8% (9% in 2013) of local authority income came from fees and charges. Amongst district councils this rose to almost 20%. In 2008, one in four councils raised more income from fees and charges than from council tax.

Local authority financial records normally 'net off' revenue from fees and charges against the cost of providing the service(s) for which they are paid. The revenue from fees and charges is attached to the provision of particular services and therefore is not a source of extra money (unless the fees are charged on a commercial basis; in other words, they are greater than the cost of providing the service). For this reason, fees and charges are often not included in discussions of local authority revenue: though one exception is the 2011 NLGN report *Communities in Charge*.[61] It would be difficult for most authorities to derive substantial extra revenue from this source.

[58] See section 152 of the *Local Government and Housing Act 1989*.

[59] Tony Byrne, *Local Government in Britain*, 2000, p.340-1: see also David Wilson and Chris Game, *Local Government in the United Kingdom*, 5th ed., 2011, p.218.

[60] Audit Commission, *Positively Charged: maximising the benefits of local public service charges*, 2008, p.3

[61] Nick Hope, *Communities in Charge: Decentralisation and Differentiation of Charges and Fees*, NLGN, 2011

5 Working with reduced funding

In the absence of additional sources of revenue, local authorities have pursued many options to reduce spending. Some of these are set out in this section. These are essentially versions of joint working or economies of scale, either across public bodies, or across local authorities. Figures for actual savings obtained are limited.

5.1 Efficiency savings

Local authorities have been encouraged by central government to pursue efficiency savings at least since the Gershon Review in 2004.[62] The onset of 'austerity' has raised the urgency of this aim. There are a number of routes towards efficiency savings:

- Reducing administrative costs, staffing numbers, and ending service provision, including outsourcing and renegotiating staff contracts;
- Partnership working with other local authorities and public bodies, either in the form of shared services (see below) or through 'collaborative outsourcing' (joint external procurement of services by public bodies);
- Managing demand. The Royal Society for the Arts' report *Managing Demand: Building Future Public Services* discusses how to reduce demand and address 'failure demand' – excess demand caused by inefficiencies in the way that services are structured. 'Co-production', the active involvement of service users in the design of services, is another tool available in this regard;
- Better use of local authority assets, in particular physical ones. Some physical assets could be sold, others more productively used, and others rented to achieve income on a commercial basis;
- More use of the trading powers in the *Local Government Act 2003*. Some authorities are now making use of these to establish trading arms, which produce a commercial return which can then be reinvested into local authority services. One of the better-known of these is the Kent Legal Service, set up by Kent County Council, which offers services on a commercial basis to other public bodies;[63]
- More efficient use of IT and data management, to improve awareness of customers' use of different council services. Customer insight from large-scale data can also help in the re-designing of services.[64]

Increasingly the concept of 'efficiency' blends into the concept of 'transformation' of services. In theory, 'transformation' refers to services being re-designed from scratch, ideally with a greater focus on the customer, as opposed to paring back services that continue to be delivered on existing models.

5.2 Whole Place Community Budgets

There have long been arguments for improving public sector efficiency by merging or pooling budgets of various organisations at local level. In the 1990s the phrase 'joined-up government' was used. This was echoed in the idea of 'place-shaping', which formed the

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[62] Sir Peter Gershon, *Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency*, HM Treasury, 2004.

[63] See Localis / Civitas, *Changing Places: how innovation and transformation is taking place in local government*, 2013, p.12.

[64] Ibid., p.16

centrepiece of the report of the Lyons Inquiry in 2007. Joint budgeting was piloted via the 'Total Place' programme in 2009-10.

In 2011 the Government announced two pilot programmes for pooling budgets: one for ten 'neighbourhood community budgets' (covering single wards or small towns) and one for four 'whole place community budgets' (Essex, Greater Manchester, West Cheshire, and West London). The general aims of both pilot schemes were to reduce 'silo working' between organisations, in order to improve public service outcomes and to save money.[65] Policy areas covered in the pilots included skills; domestic abuse; preventing reoffending; employment; and early years.

The pilot areas produced business cases which largely focused on improved joint working and outcomes, with financial savings taking second place. Actual pooling of budgets, where a public body partially relinquishes control over its funding, was rare: structured agreements between specific public bodies on spending plans have been the norm.[66]

At the outset of the process, each area produced figures for estimated savings resulting from the process. For instance, Greater Manchester estimated £270m savings over five years, and West Cheshire estimated £56 million savings over five years.[67] In 2013, a report for the LGA, by Ernst & Young, scaled estimates such as these up to reach a figure of between £4.2bn and £7.9bn across the whole of England.[68]

These figures are **not actual savings** but **estimates of potential savings**. There is no hard data available as yet as to whether they have been, or can be, realised. As Ernst & Young themselves warned, such estimates are "sensitive to the assumptions made about the ability of local public services to apply the local approaches taken by the pilots".[69] Equally, it seems likely that approaches of this kind would enable costs to be avoided (i.e. by reducing demand for services through more effective provision) in the long term.

Another issue here is that local government funds can be invested in joint programmes which lead to reductions in the spending of other public bodies, but not that of the local authorities themselves. The current pressure on local authority budgets means that the incentives to launch programmes that do not help authorities to reduce their own spending are limited. The Centre for Economics and Social Inclusion argues that it can be difficult for local authorities to obtain cashable savings from joint programmes:

> …the "savings" from successful interventions accrue roughly 80% to central government and 20% to local government. We found … specific examples of this in our own research. For example in one area, a more streamlined and refocused drug and alcohol programme had decreased demands in Accident and Emergency while freeing up police time. However, actually capturing those returns was proving far more problematic.[70]

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65 Brandon Lewis, keynote speech at Community Budgets conference, 29 November 2012.

66 Communities and Local Government Committee, *Community Budgets*, HC 163 2013-14, October 2013, pp. 8-9; also p.25

67 National Audit Office, *Case study on integration: measuring the costs and benefits of Whole-Place Community Budgets*, HC 1040 2012-13, March 2013, p.9

68 LGA, *Whole Place Community Budgets: A Review of the Potential for Aggregation*, Ernst & Young, January 2013, p.1

69 Ibid., p.26

70 Tony Wilson and Paul Gallagher, *Community works: putting work, skills and enterprise at the heart of Community Budgets*, 2013, p.37

5.3 City deals

The Government's programme of 'city deals' follows a similar logic to the community budget pilots. Community budgets enable different public authorities to share resources and strategic planning across policy areas which were previously distinct. City deals achieve the same end by devolving specific projects and powers to local authorities. Like community budgets, they are likely to permit improved integration and greater efficiencies. The powers and funding are different in different locations, and are based on a strategic analysis of the issues facing the area. As an example, Box D summarises the Sheffield City Deal.[71]

The devolution of powers and budgets through city deals is not underpinned by statute and may be revoked in the future. The deals are dependent for their success upon the negotiation between central government and the particular localities.

Box D: Sheffield City Deal

The Sheffield City Deal aims to:

- put businesses and local partners in charge of getting the skills the SCR [Sheffield City Region] economy needs, creating 4,000 new apprentices and upskilling 2,000 employees by 2016;
- deliver a £32.8m New Development Deal scheme which will transform Sheffield City Centre, creating thousands of jobs;
- enable the City Region to make economically-focused infrastructure investments with a new funding model worth up to £700m;
- transform the SCR transport network with long-term funding certainty for the next decade, enabling investment in major priority schemes;
- introduce Oyster card-style ticketing and empower the City Region with greater control over the bus network;
- develop a national centre for procurement based around SCR's Advanced Manufacturing and Nuclear Research Centres.

5.4 The Better Care Fund

The Better Care Fund (initially known as the Integration Transformation Fund) is a £3.8 billion fund, half drawn from National Health Service general budget, half from specific grants and from a transfer of £1.1 billion from health to social care budgets.

This, in effect, is a new stream of funding for upper-tier local authorities from 2015-16. The Local Government Association and the NHS provided guidance on how to access the funding in late 2013.[72] Local authorities may be able to use this funding instead of looking to their general budgets, but there will be a limit to this, as the Fund is a 'pooled budget' between health and local government.[73] It requires local authorities and CCGs to produce a two-year plan for its use, and the statutory Health and Wellbeing Boards must sign the plan

[71] Sheffield City Region LEP, *Made in Sheffield: a deal for growth*, 2012, p.2.

[72] LGA/NHS England, *Next Steps on implementing the Integration Transformation Fund*, 17 October 2013.

[73] See, for instance, David Williams and Kaye Wiggins, "New restrictions on better care fund cash", *Local Government Chronicle*, 5 July 2014.

off. It is a way for local government to influence funding which it previously had no control over. It is a part of the NHS budget, but it has also been included in the Government's calculations of 'spending power' (see section 2.1).[74]

It would be possible to bring further existing budgets into the orbit of local government in this way. However, it will not be clear for some time how much 'real power' local authorities will have over the spending of the Better Care Fund. The role of Health and Wellbeing boards and CCGs means that local government will have influence but not control over the Fund. Much will depend on the ability of local authorities to negotiate effectively with CCGs; and on how both sides respond to their own funding pressures.

5.5 Shared services

Many local authorities are making use of shared services, sharing both 'back office' and 'front line' functions. Some of these involve sharing service provision or staff between authorities. Such arrangements go beyond sharing administrative staff and IT support, and the authorities involved do not always border one another. For instance, Breckland (Norfolk) and South Holland (Lincolnshire) have shared a chief executive for some years. Benefits of shared services identified by councils include:

- financial savings from reductions in the size of management teams;
- greater opportunities for efficiencies from shared services;
- savings from joint procurement;
- a higher profile for the councils, which in some cases can represent combined populations of nearly 250,000 people;
- the combined teams can be made up of the best individuals from both councils.[75]

Economies of scale in service provision can often be achieved too. The *Councillor's Guide to Shared Services* notes some of the options:

> - spreading the fixed costs of a service over a larger number of units of delivery or activity – such as bringing different teams or organisations together under a shared management structure…;
> - driving down the unit cost of goods and services by purchasing them in greater volumes…;
> - enabling the introduction of more efficient working practices, perhaps linked to more advanced technology, that become economically viable when handling a larger volume of work;[76]

An LGA report, in August 2012, suggested that initial reductions in staffing through sharing of services deliver quick savings, giving examples of individual local authorities saving up to 25% on staff costs through consolidation of middle management. Procurement, accommodation and IT were other areas where significant early reductions were achieved. There were also examples of shared service organisations providing services on a

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74 This point was explored at a Communities and Local Government Committee evidence session in February 2014: see Communities and Local Government Select Committee, *Local Government Finance Settlement 2014-15*, evidence, 27 Jan 2014, Q64&ff.

75 IDeA, *Shared chief executives and joint management: a model for the future?*, 2009, p.4

76 LGA, *Shared services and management: a guide for councils*, 2011, p.20

commercial basis to other customers, bringing in fee income for the participating local authorities.

There are also examples of shared services which have been abandoned by the participating councils, either due to disagreements or to disappointing performance.[77] This highlights that sharing services does not guarantee good services for reduced costs. Some research has also suggested that the cost savings are likely to be far lower than the figures suggested above. NLGN's report *Shared Necessities* estimated that sharing 'back office' services alone would lead to maximum savings across local government of 3.6%, with 1.8% a more realistic figure.[78] Similarly, the National Audit Office's 2012 report *Efficiency and reform in government corporate functions through shared service centres* found that shared services within central government had yet to deliver the savings anticipated.

There are natural limits to the amount of savings that can be achieved by sharing services, assuming no significant change to the level of service being provided. If councils were to share almost all their services, this might give rise to questions about the continued independence of the council. This has led in some quarters to the reappearance of debates on unitary local government.

5.6 Unitary local government

Debate over the question of replacing county and district councils with single-tier ('unitary') authorities across England has resurfaced during 2013 and 2014. The 2014 PwC report *The Local State We're In* reported that around half of chief executives they surveyed believed that 'unitarisation' was likely to be on the agenda during the 2015-20 Parliament.

The 'Heseltine report', *No Stone Unturned*, proposed a fully unitary system of local government for England in late 2012. Two county authorities (Warwickshire and Leicestershire) produced reports on the creation of a unitary county council in their area in 2014.[79] Discussion in the sector press has also increased. The following remarks are an example:

> …the question of unitarisation continues to be raised despite the community secretary's commitment to avoid any reorganisation in this Parliament.
>
> It seems inevitable that come the next Parliament the structure of councils will once again be up for discussion. Much will rest on the future role of councils, with the biggest single factor being health integration and whether a future government might be tempted to move community health and social care closer to councils or to the NHS.[80]

The *Local Government and Public Involvement in Health Act 2007* permits the Government to invite local authorities to propose a scheme to move to a unitary structure, and for authorities themselves to request a review by the Local Government Boundary Commission for England.

Since the establishment of a uniform two-tier structure across England in 1974, there have been two major expansions of unitary local government in England: the outcome of the Local Government Commission (the 'Banham commission') in 1992-96, and the invitation process

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[77] See, for example, Mark Smulian, "Shared services deal dismantled", *Local Government Chronicle*, 14 January 2014.

[78] NLGN, *Shared Necessities: the next generation of shared services*, 2011.

[79] See Mark Smulian, "Second Midlands county looks to unitary route", *Local Government Chronicle,* 18 February 2014.

[80] Emma Maier, "Great Yarmouth: a stark warning", *Local Government Chronicle*, 13 February 2014.

of 2006-08. Each of these resulted in many lengthy disputes, including judicial reviews of Government decisions. The Coalition Government stopped the process of creating unitary authorities in Exeter and Norwich when it took office, and it refused to consider further reorganisation in its response to the Heseltine report, ruling out further top-down reorganisation in the 2010-15 Parliament.[81]

The academic work of Michael Chisholm has cast doubt on the potential for ongoing savings arising from unitary local government, and has highlighted that transition costs have often exceeded estimates in the past.[82]

An alternative option is that of 'combined authorities'. These are overarching legal bodies which may be created by groups of local authorities, under sections 103-120 of the *Local Democracy, Economic Development and Construction Act 2009*. Their principal responsibilities are transport and economic development, plus any other functions their constituent local authorities want to pass to them. Further powers can be passed to combined authorities under the *Localism Act 2011*.[83] Only local authorities can be combined authority members: primary legislation would be required to allow other public bodies to join them.

The Greater Manchester Combined Authority has existed since 2009: four others, in Merseyside, South Yorkshire, West Yorkshire and the North-East, were established in April 2014. Although the initiative to form combined authorities has come so far from metropolitan areas, they may be formed in any part of England.

81 DCLG, *Government response to the Heseltine Report*, Cm 8587, 2013, p.54; HCDeb 12 Nov 2012 cc7-8

82 See Michael Chisholm, *Structural reform of British local government: Rhetoric and reality*, 2000; Michael Chisholm and Steve Leach, *Botched Business: the damaging process of reorganising local government 2006-2008,* 2008.

83 See in addition the DCLG consultation *Proposals to amend legislation relating to economic prosperity boards and combined authorities*, April 2014.

6 Changing how funds are distributed between local authorities

6.1 Options for change

There have been few comprehensive debates on the distribution of local government funding between authorities, as opposed to the overall amount of funding. However, there are many technical changes which might have a substantial effect. For instance, should different elements of funding be individually scaled, to allow particular aspects of need to be taken into account? Should incentive-based grants be removed, or extended? Should the local taxbase be taken into account? Should additional provision be made for rural authorities, small authorities, or urban deprivation?

Changes to the distribution of funds between authorities would produce 'winners and losers': assuming the SFA remained the same overall, some authorities would be awarded more funding and some less. Currently any changes are made by the Government, on the basis of Government policy.

The Local Government Association has proposed the establishment of an independent 'grants commission', which would assess authorities' needs and allocate SFA between authorities. Steve Freer, chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), made a similar call in 2012.[84] Academic commentators have also proposed such an authority, which would set a range of needs-based indicators and publish them in advance.[85]

The concept has affinities with Australia's Commonwealth Grants Commission, which advises the Australian government on the distribution between the Australian states of both general funding and funds for programmes administered by the state governments.[86] The Secretary of State, Eric Pickles, was asked for his views in January 2014, and he replied:

> I had a look at the Australian system, in which they have a grants commission. There are things that, in a previous life, I found attractive, but I am not sure the Treasury would find it particularly attractive.[87]

The huge variation of interests within the local government sector would make the work of any such commission challenging. It would have to make decisions about which needs should determine funding distribution; how they should be weighted; and to what extent the local taxbase should be taken into account. These decisions could be politically contentious and would require high quality work, with excellent supporting evidence, in order to achieve general acceptance.

6.2 Should local government raise a greater proportion of its own revenues?

If local authorities were given extra taxation powers, in principle they could use these to raise more money. In practice, it is almost certain that central government funding to local government would decrease in proportion to the quantity of extra revenue raised. In this scenario, local authorities would not have more money, but would raise a greater proportion of their revenues through their own taxation powers.

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[84] Steve Freer, "Councils need grants commission", *CIPFA [online]*, 14 November 2012.

[85] See, for instance, Tony Travers and Lorena Esposito, *Nothing to Lose but your Chains*, 2004, p.73; Iain McLean and Alistair McMillan, *New Localism, New Finance*, NLGN, 2003, p. 26-7.

[86] See Commission on Scottish Devolution, *First Evidence from the Independent Expert Group to the Commission on Scottish Devolution*, November 2008, for details of systems of funding distribution / fiscal equalisation in a number of federal states.

[87] Communities and Local Government Committee, evidence, 22 January 2014 Q282.

This would represent a substantial shift in the way in which local government is funded, irrespective of whether it led to local authorities having more money overall. The advantages of a higher proportion of own revenue for local authorities would be:

- Greater financial incentives to improve the local area – because doing so would lead directly to increases in their tax revenue. Decisions to raise tax would be limited by local authorities' own political considerations. Higher revenues could be offset by a system of needs-based redistribution. In this scenario, individual local authorities would not necessarily see the full benefit of any extra revenue raised;

- More local financial accountability. This would ensure that local decisions to decide to increase or decrease spending on particular services were more closely related to demand from the local electorate. It would also be expected to lead to improved efficiency, as councils would be less able to plug gaps in their spending via central government grant;

- More flexibility over the balance of taxation on different local taxpayers – e.g. a local area might decide to reduce council tax whilst raising additional revenue from another source.

The disadvantages for local authorities would be:

- Less potential for equalisation. This is the obverse of the above point regarding greater financial incentives. Without equalisation, high-taxbase authorities would benefit more from any system of local taxation;

- More volatility: authorities' annual budgeting process would depend to a greater extent upon estimates of revenue in the coming year. The local authority budget would be exposed to 'external shocks' in a way that it is not when grant funding forms the majority of its income. This can be mitigated by good financial control;[88]

- Higher visibility of local taxes, potentially leading to a rise in local authority unpopularity.

Ministers and officials have claimed recently that, since the changes of 2013-14, "70% of all revenue is raised locally".[89] This is compared with "a little over a half" before the introduction of the retention scheme in 2013-14.[90] This claim relates to the SFA, including the local share of business rates in the definition of 'raised locally'.[91]

Previous analyses of the proportion of local government funding that is raised locally have included education and police funding, concluding that local authorities raise lower proportions of their funding locally. For instance, McLean and Macmillan (2003) record that, between 1993 and 2001, the average local authority raised roughly 20% of its revenue from council tax, with a further 20% coming from redistributed business rates and 60% from central government grant. Statistics from CIPFA, based on similar assumptions, show similar

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88 For a discussion of the impact of the Business Rate Retention Scheme in this regard, see LGA, *Rewiring Public Services: Business Rate Retention*, 2013, pp.5-6.

89 See, e.g. oral evidence to the Communities and Local Government Committee, HC 711-I 2013-14, 2013, Q34; HCDeb 3 Dec 2013 c234WH; HCDeb 26 Feb 2013 c291. Some of this 70% - the business rates 'local share' – is subject to redistribution between local authorities by central government.

90 See HCDeb 19 Dec 2012 c873

91 Business rates have always been **raised** locally: under the previous system, they were pooled and redistributed, whilst under the new system, **increases** in revenue (not the whole of the revenue) are retained locally.

proportions in the years from 2001 to 2013. These proportions of revenue have changed only marginally since 1993.

6.3 Assigned revenue

The possibility of local authorities benefiting from 'assigned revenue' has also been raised. In this scenario, the revenues from a specific tax or taxes collected in the local authority's area are passed automatically to the local authority; but the local authority has no power over the tax rates. This can give local authorities an incentive to drive economic growth through local policies, and collect larger quantities of tax revenue as a result. As with additional local taxes, the degree to which this happened would depend on whether the assigned revenues were distributed so as to equalise revenue between authorities.

Assigned income tax revenue was explored, as a source of local authority funding, by the House of Commons Political and Constitutional Reform Committee in early 2013.[92] The Committee's report proposed assigning revenue to local government as a whole; it did not discuss whether authorities should receive assigned revenue on the basis of income tax paid by taxpayers in their area, or whether an equalisation system should be created.

[92] House of Commons Political and Constitutional Reform Committee, *Prospects for codifying the relationship between central and local government*, HC 656-I 2012-13, January 2013, pp.69-70.

7 Changes to local taxation

This section summarises a number of proposals for changes to local taxation, linking back to section 4. These changes are not necessarily routes to councils raising 'more money'. In some cases – for instance, council tax revaluation – the main effect might be that some authorities' revenue would rise and some authorities' revenue would fall, whilst the overall amount of revenue raised might not change. In other cases – for instance, business rate reliefs – the effects could be limited to shifts in the rate liabilities of specific categories of businesses, with little change in the revenue raised.

7.1 Council tax

Council tax capping/referendums

Local government has consistently opposed central government's powers to restrict council tax levels, arguing that councils should be permitted to set council tax rates without central oversight:

> It should be for councils and their residents to decide how local services are paid for, not Whitehall. The ballot box on local election day allows for people to pass judgement on their councils. No other tax increase is subject to the extra cost of a referendum, as all other taxes are rightly seen to be within the mandate of the elected government. The same should apply for council tax.[93]

The *Localism Act 2011* does not **require** the Secretary of State to set 'principles of excessiveness'. A future Government could relinquish control over council tax levels simply by making no use of the power. Primary legislation would be required to abolish the power entirely.

Revaluation

Property valuations for council tax purposes are still based on values as of 1 April 1991.[94] The *Local Government Act 2003* introduced a 10-yearly revaluation cycle for council tax, with the first revaluation to come into effect in 2007; however, this was then abandoned via the *Council Tax (New Valuation Lists for England) Act 2006*. Though the *power* to revalue has been retained, there is now no legal requirement to do so by a specific date. A revaluation would require secondary legislation, under the *Local Government Act 2003*.

A revaluation would mean that properties would fall into a council tax band that more accurately reflects their value today. Occupants of properties which have seen a greater than average increase in value since 1991 would be more likely to see their properties move up one or more bands. Occupants whose properties have increased by less than the average, or fallen in value, since 1991 would be more likely to see their properties move down one or more bands. Some property values have moved greatly since 1991, and this might be reflected by considerable movement in bandings at a revaluation. The 2005 revaluation in Wales provided that properties moving up by more than one band could only move by one band every financial year – thus some would reach their final band two or three years after the revaluation.

Alterations to banding

Changes to the number of council tax bands, and the property values which they cover, can be made via secondary legislation under the *Local Government Finance Act 1992*. Proposals

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[93] See "LGA response to written ministerial statement on council tax referendums", 5 February 2014. See also Cox, Henderson and Raikes, *Rebalancing the Books,* 2014, p.45; TaxPayers' Alliance, *Tax 2020,* p.372-3

[94] Properties built since then must be banded according to their notional value on 1 April 1991.

have been made in the past to create additional council tax bands and to alter the property values which they cover (see Box E for an example of this).[95]

It would be difficult in practice to alter council tax bandings without a full revaluation, though the ratios between the bands could conceivably be altered without the band values themselves changing. The present Government has ruled out any changes to council tax banding and any revaluation in the current Parliament.[96]

Box E: Alternative bandings for council tax

Research for the Lyons Inquiry (2007) modelled changes to the bands and proportions of council tax in England. It suggested splitting bands A, G and H; the new higher bands would pay a substantially greater proportion of the Band D bill than at present.

Existing bands			New bands		
Bands	**1991 values**	**Band ratio**	**Bands**	**1991 values**	**Band ratio**
A	Under £40,000	6/9	A1	Under £30,000	5/9
			A2	£30,001-£40,000	6/9
B	£40,001 - £52,000	7/9	B	£40,001 - £52,000	7/9
C	£52,001-£68,000	8/9	C	£52,001-£68,000	8/9
D	£68,001-£88,000	9/9	D	£68,001-£88,000	9/9
E	£88,001-£120,000	11/9	E	£88,001-£120,000	11/9
F	£120,001-£160,000	13/9	F	£120,001-£160,000	13/9
G	£160,001-£320,000	15/9	G1	£160,001-£240,000	15/9
			G2	£240,001-£320,000	17/9
H	Over £320,000	18/9	H1	£320,001-£450,000	21/9
			H2	£450,001-£700,000	27/9
			H3	£700,001-£1,000,000	36/9
			H4	Over £1,000,000	45/9

The 'band ratio' figures are the number of 9ths of the Band D bill that properties in each band would pay. Hence the proposed H4 band would pay 45/9 of the Band D bill (i.e. five times as much: compare the band ratios in Box A above, where band H pays twice the band D rate). The property values are **all** 1991 values, in order to allow comparability between the proposals.

A similar proposal, with slightly different values and band ratios, can be found in Peter Kenway and Guy Palmer, *Council Tax: the answer?* (New Policy Institute, 2003).

There would be strong political pressure to ensure any revaluation and/or banding changes did not lead to an overall rise in council tax revenue. This is a statutory requirement for business rates revaluation, and was the intention in the abortive council tax revaluation of

[95] The Liberal Democrats propose a 'mansion tax' of 1% of the marginal value of properties with a sale value of over £2 million. Hence, a house valued at £2.5 million would be taxed at 1% of £500,000 – the amount by which the value exceeded £2 million - equalling an annual tax of £5,000. Such a tax would have some similar effects to a rebanding of council tax. However, it is not clear whether the Liberal Democrats intend the tax to be administered by, or the revenue to be paid to, local or central government.

[96] HCDeb 25 Feb 2014 c101WH

2003-6.[97] But alterations to banding, or a revaluation, would be high-profile and contentious, with some taxpayers seeing large increases in their bills (whilst others saw their bills decrease). Together, these two factors limit the incentive for local authorities to pursue these changes, even though they might improve the progressiveness of council tax. The Mirrlees Review notes:

> The unpopularity of council tax has been one major factor behind the unwillingness of government to undertake revaluations. The other is the fact that any revaluation inevitably creates losers and winners—and losers tend to be very vocal. ... Part of the problem now is that a revaluation has been avoided for so long that changes in relative tax liabilities would be very substantial.[98]

Devolving revaluation and band-setting powers

The London Finance Commission proposed devolving to ‘London government’ the power to set council tax bandings, the proportion between them, and to fix the timing of revaluations. This change would require primary legislation. It could lead to a greater divergence than currently exists in the council tax liabilities of comparable properties in different locations across England.

A change of this kind would devolve the *taxbase* as well as the tax revenues themselves. Areas with large taxbases potentially have more to gain, in terms of raising revenue, from such a move. This has implications for London in particular. Restricting access to London’s very substantial property taxbase, for instance, to London government alone, would reduce the degree to which tax revenues from that source could be redistributed to elsewhere in England.

Alternative forms of domestic property taxation

It would be possible to introduce a ‘point value’ system of local property taxation. This would consist of an annual tax liability based on a percentage of the capital value of the property. The Lyons Inquiry modelled a point value system;[99] one was also proposed by the 2011 Mirrlees Review.[100] The Joseph Rowntree Foundation report *After the Council Tax* modelled the replacement of council tax by a national property tax, set at 0.65% per annum of the capital value of properties: so, for instance, a property worth £500,000 would pay £3,250 per annum.[101]

This concept has similarities to the pre-1990 domestic rates system (though domestic rates were based on rental values, not capital values). A system of this kind is used in Northern Ireland, where domestic rates are now based on a percentage of the capital value of domestic properties. The maximum possible capital value in the Northern Irish system is £500,000.[102] Separate percentage rates are set by the district councils and the Northern Ireland Assembly. The 2006 Burt Review recommended a similar system for Scotland.[103]

This change would require primary legislation, plus a new valuation for all domestic properties. As with a council tax revaluation, there would be pressure to ensure that overall

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97 See, for instance, a commitment in this regard from Nick Raynsford, then Minister for Local Government, regarding the planned 2007 revaluation, at HCDeb 20 Jul 2001 c555W. The 2005 revaluation in Wales saw a rise of 9.5% in council tax collected from 2004-05 to 2005-06. Reliable figures for how much of this increase was attributable to the revaluation are not available.

98 Institute for Fiscal Studies, *Tax by Design*, 2011, p.383

99 See Lyons Inquiry, *Annex C: Background to support chapter 7*, pp.44-51.

100 Institute for Fiscal Studies, *Tax by Design*, 2011, p.384-5

101 Chris Leishman et al., *After the Council Tax*, Joseph Rowntree Foundation, 2014.

102 The Community Charge (the poll tax) and the council tax were never introduced in Northern Ireland.

103 Local Government Finance Committee, *A Fairer Way*, 2006, pp.138&ff.

revenue did not rise as a result of introducing such a tax; and a system of exemptions and discounts would likely be required.

7.2 Business rates

Changes to calculation of rateable value

As outlined earlier, rateable value for business rates purposes is normally calculated with reference to annual rental value. Where it is hard to measure annual rental value accurately, alternative methods can be used.[104] These include:

- 'fair maintainable trade' (FMT), used to value pubs, as the rental value of a pub is strongly influenced by the existence of a licence to sell alcohol;[105]

- The 'contractor's basis', used for valuing unique or historic properties: the rateable value is based on a percentage of the 'replacement cost', i.e. the cost of replacing the building;

- Communications cables – telecoms and broadband - are valued on a "rental tone basis". Valuers use a pre-set list of rateable values – the "fibre rent scale" – to fix the rateable value of a given cable.[106] The fibre rent scale is based upon the number of fibres and the length of the cable in kilometres.

Primary legislation would probably be needed to enable any of these methods to be used more widely. Large quantities of case law exist with regard to rating practice, which could provide a basis for legal challenge to any major shift in practice which was not backed by legislative change.

Alternatively, the method of calculating rateable value could be based on, or include, other business inputs. The 1995 Institute for Fiscal Studies paper *Options for Business Rate Reform* suggested a "multi-base business tax". This proposed adjusting rateable values by multiplying them by a proportion of the business's aggregate payroll. The purpose of an adjustment such as this would be to base business taxes on multiple input factors, hence diminishing the influence of the property's value on the level of tax due.

A scheme of this sort could reduce the perceived inequity, with regard to rates, between businesses that do and do not need to occupy large properties. This perception underlies some of the suggestions in the February 2014 British Retail Consortium report *Business Rates: the road to reform*, which proposed options such as a business tax based on energy usage and one based on numbers of employees.

It would also be possible to base the annual uprating of the multiplier on CPI instead of RPI; and/or to base it on an average level rather than the level in the September before the relevant financial year.

The changes in this section would require primary legislation, plus an initial valuation of any new input factors that were included in a reformed business rate.

Revaluation

There have been proposals that revaluations could take place on a more frequent basis – for instance, every two or three years – to enable rateable values to keep pace with changes in

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[104] See the VOA's heading 'Valuation Principles' in the *Rating manual* on the VOA website.

[105] See the current agreed methods of valuation, set out in the 2010 publication *Valuation of Public Houses: Approved Guide*.

[106] This can be viewed on the VOA's website.

the rental market and to track economic conditions more accurately.[107] Rateable values would also be less subject to large changes if revaluations were more frequent. This would imply added expense for the Valuation Office Agency, but it would address to some extent the perceived disconnect between rateable values and rents which underlies much current discontentment with business rates. It should be remembered that the multiplier moves up or down at a revaluation to balance the change in rateable value: thus a lower (or higher) rateable value does not automatically translate into a lower (or higher) business rates bill.

It would be possible to calculate adjusted rateable values between revaluations, though such a system would inevitably be less exact than a full revaluation.[108] The Government's April 2014 consultation paper on business rates raises the possibility of a system of 'indexation' to achieve this.[109]

Alterations to reliefs

Small business rate relief could be altered to apply only to specific sectors (for instance, the retail or industrial sectors). Alternatively, the small business multiplier could be reduced, and/or the range of rateable values to which it applies could be altered. For instance, under the current legislation, this would require the standard multiplier to increase to ensure that the small business multiplier did not cause any overall fall in revenue.[110] This change could be introduced via secondary legislation.

Other reliefs from business rates are prescribed in primary legislation, and would need further primary legislation in order to be adjusted. Examples are the provision for 80% relief for charitable use of property, 50% rural rate relief for sole shops, pubs and petrol stations in designated rural areas, and exemption for agricultural land. Empty property rates can be reduced from 100% down to 50% via regulations: a greater reduction than this would require primary legislation.[111]

Devolving powers over revaluation and multipliers

The London Finance Commission proposed that 'London government' should set the business rate multiplier and the timing of revaluations. The proposal reflects the practice before the introduction of the National Non-Domestic Rate in 1990, when local authorities set their own multipliers. This change would require primary legislation.

The 2004 *Balance of Funding Review* reported that business was largely opposed to the 're-localisation' of the rates – that is, to a return to the pre-1990 system:

> [Businesses] said local authorities would raise business rates to fund service for voters or take pressure off council tax, at the expense of non-voting business taxpayers. This would worsen relations between business and councils. Not only did businesses expect to be charged more under localised business rates, they also feared that rises would be arbitrary and sudden, and that, because rates would vary by area, there would be an uneven playing field for business.[112]

In Northern Ireland, both the Northern Ireland Assembly and district councils set multipliers (the 'regional rate' and the 'local rate'): the district councils collect the full liability and pass the regional rate to the Assembly.

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[107] For instance, see Business, Innovation and Skills Committee, *The retail sector*, HC 168-I 2013-14, 2014, p.46.
[108] Institute for Fiscal Studies, *Green Budget 2014*, 2014, p.262-3
[109] HM Treasury / DCLG, *Administration of business rates in England,* 2014, p.11
[110] This is a requirement of the *Local Government Finance Act 1988,* schedule 7 paragraph 3A.
[111] See the *Local Government Finance Act 1998*, s43; *Rating (Empty Properties) Act 2007*, s.1 (1).
[112] ODPM, *Balance of Funding Review*, 2004, p.37

In Scotland, the Scottish Government may set multiple multipliers, under section 153 of the *Local Government etc. (Scotland) Act 1994*. This Act is more flexible than the English legislation, which only permits a standard multiplier and small business multiplier. The Scottish Government has used it to introduce the Public Health Supplement (also known as the 'supermarket levy'), applying an additional multiplier of 13p in the pound to properties with a rateable value of £300,000 or more that are mainly used as a shop and that hold a licence to sell alcohol and tobacco.[113] It has also introduced the Large Business Supplement, an extra multiplier of 0.9p in the pound on all properties with a rateable value of over £35,000.[114]

Primary legislation would be needed to permit more than two multipliers to be set in England (and Wales). As with council tax, any such move would have to balance the potential for extra revenue with the possible political consequences.

7.3 Local Income Tax

In many countries, local authorities set a rate and collect the revenue of an income tax, normally in addition to a central government income tax. There have been suggestions for a local income tax (LIT) to be introduced in the UK in the past, notably from the 1976 Layfield Committee on local government finance[115] and from the 2004 *Balance of Funding Review*. The latter report investigated both assigning a portion of income tax revenues to local authorities (i.e. no power for councils to set the tax rate) and introducing a variable tax (i.e.

Box F: Locally Variable Income Tax

Travers and Esposito (2004) proposed a 'locally variable income tax' (LVIT). This would supplement council tax, raising the proportion of local authority revenue raised and retained locally.

- Four percentage points of the basic rate of tax on earned incomes would be transferred to local authorities (hence, at the time of writing, central government would be left with 16 percentage points of the current 20% basic rate);
- The tax would be collected via the PAYE system, with the creation of a new code relating to the local authority in which the taxpayer lived;
- HMRC would collect the revenue and distribute the appropriate amounts to local authorities;
- Local authorities would have the right to reduce the four percentage points to zero, or increase it to a maximum of six, in 'bands' of ½%.

Investment income would be excluded on the grounds of 'prohibitive cost'.

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[113] This supplement is applied via the *Non-Domestic Rates (Levying) (Scotland) (No. 2) Regulations 2012* (SI 2012/29). See also details on the *Scottish Government's website*. This is payable **only** on the amount of rateable value **above** £300,000: hence a shop with a rateable value of £400,000 will pay an **additional** £13,000 (i.e. 13% of £100,000). The Scottish Government currently plans to end the levy from 1 April 2015.

[114] See the *Non-Domestic Rates (Levying) (Scotland) (No.3) Regulations 2012* (SI 2012/353).

[115] Layfield Committee, *Local Government Finance: Report of the Commission of Enquiry*, Cmnd 6453, 1976; see also John Kay and Stephen Smith, *Local Income Tax: options for the introduction of a local income tax in the United Kingdom*, Institute for Fiscal Studies, 1988; and TaxPayers' Alliance, *Tax 2020*, 2011. Cox, Henderson and Raikes, in *Rebalancing the Books* (IPPR, 2014, p.44-5), argue for 10% of income tax to be assigned to combined authorities where they exist.

councils could set the tax rate). It reported CIPFA's belief that 4-5 years would be needed to set such a tax up.[116] There would be significant implications also for the annual local government budgeting timetable and for HMRC procedure around tax collection.

An alternative approach is to devolve a certain number of 'percentage points' of the existing income tax rate to local authorities (see Box F for a typical example of such a proposal).[117] This approach is designed to avoid accusations that a 'new tax' is being introduced, as the tax burden on individuals would not increase merely as a result of the change itself.

The 2007 Lyons Inquiry considered LIT at some length and concluded that it would be feasible to introduce it in the UK, but did not directly recommend that this be done. Research for the Lyons Inquiry suggested a lack of public appetite for a local income tax *alongside* council tax and business rates.

The system introduced by the *Scotland Act 2012* will reduce the basic and higher rates of income tax in Scotland by ten percentage points. The Scottish Parliament will then be required to set a Scottish income tax, either at ten percentage points or a higher or lower rate. The system will come into effect from 2016-17. The Silk Commission has proposed a similar system for the National Assembly for Wales.[118] In effect, the collection, revenues, and setting of rates of an *existing* tax will be devolved, as opposed to a 'new tax' being introduced.

7.4 Other local taxes

The following are examples of local taxes which have been proposed in various reports. To retain the incentive to introduce smaller taxes of this kind, local authorities would need assurances that any extra revenue raised by them would not be entirely offset through equalisation.

Transport-related charges

Local authorities have the power to introduce road pricing (a congestion charge) under sections 163-167 of the *Transport Act 2000*. They may only introduce a charge on roads for which they are responsible. The only scheme introduced under this legislation is in the city centre of Durham. Proposed schemes in Edinburgh and Manchester were abandoned following rejection in referendums.[119]

The London congestion charge was introduced under the *Greater London Authority Act 1999*. The powers in this Act were also used to introduce the London Low Emissions Zone (see Library standard note SN02044, *Roads: charging in London*).

Sections 178-190 of the *Transport Act 2000* permit the introduction of a workplace parking levy. A workplace parking levy is a charge on the provision of parking spaces at a workplace, by means of a licence, imposed by the relevant local authority. The levy must form part of the local transport plan. Only one such scheme has been introduced, by Nottingham City Council.[120]

[116] ODPM, *Balance of Funding Review*, 2004, p.45

[117] Tony Travers and Lorena Esposito, *Nothing to Lose but your Chains*, 2004, pp.41-49

[118] Commission on Devolution in Wales (the Silk Commission), *Empowerment and Responsibility: Legislative Powers to Strengthen Wales*, 2014.

[119] There is no legislative requirement for a referendum before the introduction of a congestion charging scheme. The local authorities proposing the schemes chose freely to hold them.

[120] Some further details of the scheme can be found in Nottingham City Council's *Workplace parking levy employer handbook*, published in February 2013.

Sales and tourism taxes

A 'tourism tax', consisting of a charge levied on occupancy of hotel beds – for instance, £1 per bed per night – was proposed by Travers and Esposito (2004). Edinburgh City Council considered such a tax for several years (the 'Transient Visitor Levy'), but identified that no legal powers existed to introduce the tax, and abandoned the idea in 2012.[121] The quantity of revenue produced by such a tax would be unlikely to be large – Edinburgh City Council estimated annual revenue of £3 million - and would only benefit areas with a substantial tourist industry.

A local sales tax – i.e. a percentage charge on sales of goods or services, the level of which would be set by the local authority – has been proposed on a number of occasions as a potential additional source of revenue for local authorities.[122] 'Cross-border shopping', where individuals shop in nearby local authorities with lower tax rates, could increase as a result of such a tax.

It is very likely that a local sales tax would be illegal under European Union law. The provisions of article 401 of the principal VAT directive (2006/112/EC) preclude differential rates of VAT within a member State. Case law has established that a tax which is the same as VAT in all essentials would be caught by this provision.[123] On the other hand, it would be possible to assign VAT revenues to local government.[124] As noted earlier, decisions would have to be taken regarding whether such a scheme should allocate each local authority the VAT receipts received in its area, or whether an equalisation scheme should be instituted.

Land value tax

The 2011 Policy Exchange report *Taxing Issues*, and the Mirrlees Review (*Tax by Design*), discuss the introduction of a land value tax to replace business rates and/or council tax. Land value taxes aim to tax the value of land, distinct from the value of any buildings on it. The Mirrlees Review recommended that a land value tax be introduced to replace business rates, but not council tax. *Taxing Issues* identified potential technical issues with introducing a land value tax:

- The need to assemble a valuation roll based on land transactions;
- The need for a watertight valuation method for land not subject to a recent transaction;
- The possibility that homeowners might face increased tax liability if their property appreciates in value: this may create many 'losers' from a move to an LVT;
- A move away from the idea of local taxation paying for local services – as an LVT would need to be levied on the owner, not the occupier, of the property.

Further details of the concept can be found in Library standard note SN06558, *Land value taxation*.

[121] Brian Ferguson, "Edinburgh's tourist tax is scrapped after 10 years of wrangling", *The Scotsman*, 2 Oct 2012

[122] The most recent discussion can be found in Tax 2020, a report by the TaxPayers' Alliance. This suggests that local authorities should be allowed to raise a sales tax of up to 5%: see p.377&ff.

[123] See *Banco Popolare di Cremona v Agenzia Entrate Ufficio Cremona*, 2006, C475-03.

[124] The IPPR report *Funding Devo More* proposes the assignment of VAT receipts obtained in Scotland to the Scottish Government: see Alan Trench, *Funding Devo More: Fiscal options for strengthening the union*, 2013.

Stamp duty

Stamp duty land tax and landfill tax were both devolved to Scotland under the *Scotland Act 2012*.[125] Following the passage of the *Land and Buildings Transaction Tax (Scotland) Act 2013* through the Scottish Parliament, stamp duty will be replaced in Scotland as of April 2015. The UK Government has proposed devolving both of these taxes to the National Assembly for Wales.[126] The London Finance Commission proposed devolving stamp duty, but not landfill tax, to London government.

[125] 'Stamp duty land tax' is a single tax: the tax was formally known as 'stamp duty' until 2003, and is still normally referred to as such.

[126] See HM Treasury, *Empowerment and responsibility: devolving financial powers to Wales*, November 2013, p.11

8 Concluding remarks

The complexity of local government funding defies simple solutions which would please everyone. Overall, there is not yet any political imperative for any specific changes. Many of the workable changes have knock-on effects on other aspects of the debate. It may be that change in some of the areas highlighted will be desired by the government elected in 2015. Implementing answers to the issues highlighted here would require political commitment and perseverance. The following matters, though, are likely to influence the debate:

- It is very unlikely that local government funding will be increased in the next Parliament. Almost all areas of the public sector have been obliged to reduce costs substantially, and there is no sign that this will change in the near future;

- The initiatives described in section 5, sharing budgets and functions and pursuing efficiencies, are a more realistic approach to the financial challenges in the medium term. This approach might include passing functions and their associated budgets to local government. A larger overall 'pot' of money, which could be the outcome of such a change, would naturally present more opportunities for efficiencies;

- Fears for the financial sustainability of some local authorities have been expressed from a number of different quarters, not just from within local government itself. No local authority has yet faced a full-scale financial crisis, but fears over the potential for one remain;

- The current Government has implemented a significant change in the system of distribution of funding between authorities. The Government elected in 2015 will need to consider whether they wish to keep or change the system of distribution;

- The depth of concern over business rates reflects the lack of flexibility in business rates to reflect economic conditions. This does not in itself prove that the fundamental structure of business rates is unsound. Many rate-payers' concerns could be addressed by one or more of the following: a revaluation; changes in valuation practice for different types of property; or a simple reduction in business rates levels. However, the Government has postponed the next revaluation, and a reduction in rate levels would reduce local authority budgets further;

- The evidence so far on how much can be saved via efficiencies is mixed. On the one hand, there is relatively little hard evidence about the future potential savings through these routes: many figures have been quoted, but most are estimates. On the other, there is evidence that organisational mergers and sharing of services can enable costs to be cut. Either way, however, there will be natural limits to the amount of money that can be saved in this way. Joint working and sharing cannot produce infinite efficiency savings;

- There are many ways in which local taxation could be handled. However, there are few political incentives for central government to make any marked changes in this area. Council tax is far from popular, but in recent years it has mitigated its unpopularity by, so to speak, maintaining a low profile and avoiding eye-catching rises. It has many advantages for local government which are often unappreciated: its yield is stable, it is broadly accepted (if grudgingly so), and whilst not progressive in its structure, it has not been perceived as so unfair as to be unworkable. Rumours of its death have long been exaggerated. It is likely that a defining moment in the operation of council tax would be needed to drive serious debate about replacing it;

- Equally, local government at present needs the funding it gets from the two taxes which it collects. They are likely to provide a greater proportion of its total funding over time. Any

new or replacement tax would need to provide the same levels of funding, which has implications for the levels at which a new tax would be set. To illustrate this point, research for the Lyons Inquiry estimated that entirely **replacing** council tax with a local income tax would require an **average** local income tax rate of 6.6%;[127]

- Unitary local government is the reform that dare not speak its name: it has been furtively discussed due to the imperative to cut costs. The disruption and disputes that have accompanied previous moves to unitary authorities are a disincentive to any nationally mandated restructuring. Whilst some of the unitary authorities created in the late 2000s have reported savings, these have been moderate, and these reports must be balanced with the academic research mentioned above. It is not clear that a move to unitary structures would be transformative in terms of releasing funding;

- Additional revenue-raising powers would not be a panacea for local authorities. Even if council tax and business rates were adjusted to give local government greater control, or additional taxes were made available, it seems unlikely that many councils would raise taxes substantially. Tax rises are high-profile and can have electoral consequences for the ruling party or parties in such an authority;

- On the other hand, the differences in taxbases across local authorities, and hence the potential revenue that could be raised, means that increased local revenue-raising powers would be likely to increase financial inequality between local authorities, unless some form of equalisation is introduced. Any government which increased the proportion of revenue raised locally would need to consider to what extent, and how, it wished to balance the incentives of additional revenue-raising powers with equalisation. This decision requires the balancing of opposing forces;

- It could be argued that small changes to council tax and business rates, via secondary legislation, would meet some of the demands of taxpayers. Council tax could be made less regressive, and business rates could be used in alternative ways to stimulate business investment. However, it is almost certain that any such changes would be implemented so as not to raise overall revenue levels.

[127] See Lyons Inquiry, *Annex C: Background to support chapter 7*, 2007, p.65

9 Further reading

The following is a list of reports, articles, and useful websites relevant to this paper. It is not the result of a comprehensive literature search and should not be treated as such. The electronic version of this paper includes links wherever available.

Documents relating to the 2014-15 local government finance settlement

DCLG, *A guide to the local government finance settlement in England,* 2013
DCLG, *Local Government Finance Report (England) 2014 to 2015*
DCLG, *Referendums Relating to Council Tax Increases (Principles) (England) Report 2014 to 2015*
Settlement funding figures for individual local authorities, 2014-15
LGA *response to the Local Government Finance Settlement* 2014-15, 2013
Letter from the Chief Secretary to the Treasury re Local Government finance dated 9 December 2013
Correspondence between Carolyn Downs (chief executive, LGA) and Sir Bob Kerslake (permanent secretary, DCLG) regarding the 2014-15 settlement
Communities and Local Government Select Committee, *Local Government Finance Settlement 2014-15*, one off-evidence session, 27 Jan 2014
DCLG explanation of spending power figures used in the 2013-14, 2014-15 and 2015-16 settlements
SOLACE Statement in advance of Spending Review, 14 May 2013

Council tax and business rates

Arthur Midwinter and Colin Mair, *Rates reform: issues, arguments and evidence*, 1987
Peter Kenway and Guy Palmer, *Council Tax: the answer?,* New Policy Institute, 2003
Local Government Finance Committee (the Burt Committee), *A Fairer Way*, 2006
British Retail Consortium, *Business Rates: the case for reform*, September 2013
Bill Grimsey, *The Vanishing High Street*, 2013
HM Treasury, *Autumn Statement 2013*
LGA, *Rewiring Public Services: Business Rate Retention*, 2013
British Retail Consortium, *Business Rates: the road to reform*, 2014
Chris Leishman et al, *After the Council Tax*, Joseph Rowntree Foundation, 2014
House of Commons Business, Innovation and Skills Committee, *The retail sector*, HC 168-I 2013-14, 2014
DCLG, *Administration of business rates in England*, April 2014
Institute for Fiscal Studies, *Green Budget 2014*, 2014 (chapter 11)

The financial position of local authorities

ODPM, *Balance of Funding Review*, 2004
Local Government Association, *Future Funding Outlook for councils from 2010-11 to 2019-20*, 2013
Audit Commission, *Tough Times 2013*, 2013
Grant Thornton, *2016 tipping point? Challenging the current*, 2013
National Audit Office, *Financial sustainability of local authorities*, 2013
Council of Europe (Congress of Local and Regional Authorities), *Local and regional democracy in the United Kingdom*, March 2014

Local government finance (general)

Layfield Committee, *Local Government Finance: Report of the Commission of Enquiry*, Cmnd 6453, 1976
Rita Hale and Tony Travers, *Sources of revenue for local authorities*, 1998
Iain McLean and Alistair MacMillan*, New Localism, New Finance*, NLGN, 2003

Stuart Adam, Carl Emmerson and Anoushka Kenley, *A Survey of UK Local Government Finance*, Institute for Fiscal Studies, Briefing note 74, 2007
Alex Gibson and Sheena Asthana, “A Tangled Web; Complexity and Inequality in the English Local Government Finance Settlement”, *Local Government Studies* 38:3, 2012, 301-320
Audit Commission, *Positively Charged: maximising the benefits of local public service charges*, 2008
Nick Hope, *Communities in Charge: Decentralisation and Differentiation of Charges and Fees*, NLGN, 2011

Localism / proposals for localism

Commission on Local Governance, *Free to Differ: The Future for Local Democracy*, LGIU, 2002;
New Economics Foundation, *Localism: Unravelling the Supplicant State*, 2009;
Ed Cox, *Five Foundations of Real Localism*, IPPR, 2010
London Finance Commission, *Raising the Capital*, 2013
Political and Constitutional Reform Committee, *Prospects for codifying the relationship between central and local government*, HC656-I, 2012-13, 2013
NLGN, *Combined Efforts: the future governance of England’s cities*, 2014
PwC, *The local state we’re in*, 2014
Local Government Innovation Taskforce [Labour Party], *People-powered Public Services*, July 2014
IPPR, *The Condition of Britain*, June 2014
Communities and Local Government Committee, *Devolution in England: the case for local government*, HC503 2014-15, 2014
LGA, *Investing in our Nation’s Future: the first 100 days of the next government*, 2014

Relevant papers addressing Scotland, Wales and Northern Ireland

Commission on Scottish Devolution (the Calman Commission), *Serving Scotland Better: Scotland and the United Kingdom in the 21st Century*, 2009
Alan Trench, *Funding Devo More: Fiscal options for strengthening the union*, 2013, p.29
Commission on Devolution in Wales, *Empowerment and responsibility: financial powers to strengthen Wales*, 2013 (first report of the Silk Commission)
HM Treasury, *Empowerment and responsibility: devolving financial powers to Wales*, November 2013 (response to first report of the Silk Commission)
Commission on Devolution in Wales, *Empowerment and Responsibility: Legislative Powers to Strengthen Wales*, 2014 (second report of the Silk Commission)
NICVA, *Fiscal Powers: A review of the Fiscal Powers of the Northern Ireland Assembly*, 2013

Working with reduced budgets

IDeA, *Shared chief executives and joint management: a model for the future?,* 2009
LGA, *Shared services and management: a guide for councils*, 2011
NLGN, *Shared Necessities: the next generation of shared services*, 2011
LGA, *Services Shared, costs spared?,* Drummond Macfarlane, 2012
LGA, *Whole Place Community Budgets: A Review of the Potential for Aggregation*, Ernst & Young, January 2013
Tony Wilson and Paul Gallagher, *Community works: putting work, skills and enterprise at the heart of Community Budgets*, 2013
DCLG, *Government response to the Heseltine Report*, Cm 8587, 2013
LGA/NHS England, *Next Steps on implementing the Integration Transformation Fund*, October 2013
Communities and Local Government Committee, *Community Budgets,* HC 163 2013-14, October 2013
National Audit Office, *Case study on integration: measuring the costs and benefits of Whole-Place Community Budgets*, HC 1040 2012-13, March 2013

NLGN, *Right tier, right now*, June 2014

Background information about local government

Tony Byrne, *Local Government in Britain*, 2000
Michael Chisholm, *Structural reform of British local government: Rhetoric and reality*, 2000
Tony Travers and Lorena Esposito, *Nothing to Lose but your Chains*, 2004
Sir Michael Lyons, *Place-shaping: a shared ambition for the future of local government* (the Lyons Inquiry), 2007, plus supporting documentation and research
Michael Chisholm and Steve Leach, *Botched Business: the damaging process of reorganising local government 2006-2008*, 2008
David Wilson and Chris Game, *Local government in the United Kingdom*, 5th ed., 2011

Taxation (general)

John Kay and Stephen Smith, *Local Income Tax: options for the introduction of a local income tax in the United Kingdom*, Institute for Fiscal Studies, 1988
Institute for Fiscal Studies, *Tax by Design*, 2011
TaxPayers' Alliance, *Tax 2020*, 2011

Useful websites

The RSA / Core Cities City Growth Commission's web pages.
Communities and Local Government Committee, *Devolution in England: the case for local government*, HC-503 2013-14, 2014.
Convention of Scottish Local Authorities (COSLA), *Commission on Strengthening Local Democracy*