

Financing local government

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Public finance difficulties are not restricted to central government

Local authorities are facing a period of fiscal tightening unprecedented in recent decades. None of the main parties included council financing as one of the areas to be protected from cuts to public services. Local authorities are therefore likely to face significant real terms cuts in grants received from central government.

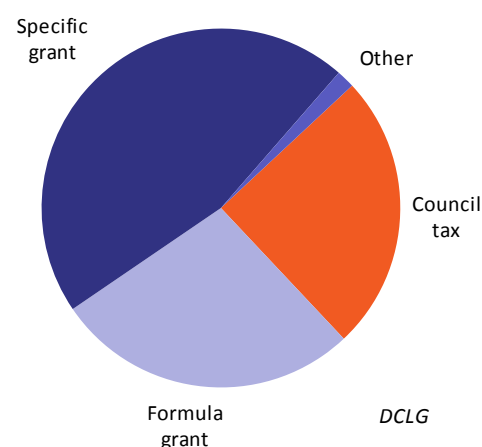
It has been suggested that in the next three-year spending review period, unprotected services could face annual real cuts of up to 10%. A 10% real terms cut in the 2010/11 grant to local authorities in England would be equal to approximately £6.7bn.

In theory, local authorities could increase revenue through the council tax. However, council tax revenue accounts for only one-quarter of local authority income. It might take an increase of one quarter in English council tax revenues fully to compensate a 10% reduction in grant levels. As the Conservatives have pledged a two-year council tax freeze, it is unlikely that council tax rises could be used to fend off significant cuts to services. In addition, local authorities have indicated little appetite for large increases in council tax.

Councils might attempt to raise additional revenue through fees and charges. However, there is limited scope to do so within the current framework, especially as demand for revenue raising services has fallen during the recession.

It is therefore difficult to see how local authorities will be able to avoid cuts to expenditure on services. Three broad

Council tax finances one-quarter of local government expenditure



options for the future of local government services have been suggested:

1. **'Core services plus'** – could the number of services to which individuals are automatically entitled be reduced? Councils might provide a core level of service free at the point of delivery and charge for additional services. *How would the 'core' services be defined? Would this be mandated centrally or would individual local authorities be able to decide which services they deem to be core?*
2. **Increase local decision making** - some argue local authorities are more responsive to the needs of local citizens than central government. Could

OPTIONS FOR COUNCIL TAX

Council tax is identifiably local, predictable and difficult to evade. However, it is seen as regressive and its limited yield, which does not automatically increase with economic growth, arguably fails to provide the flexibility councils need in the current climate.

There has been no general **revaluation** of domestic properties in England since council tax was first introduced in the early 1990s. Dwellings are therefore placed in council tax bands according to their capital value on 1 April 1991. The *Local Government Act 2003* established a fixed ten-yearly cycle of revaluations from 2007 to ensure council tax bands were based on more up-to-date property values. This was later revoked and the Secretary of State has the power to set the date of any future revaluation by Order.

Revaluation in Wales went ahead as planned in 2005. Though a revaluation should, in theory, be revenue-neutral, there was a perception it led to increased bills. Transitional measures were introduced to ensure that no dwelling moved up more than one band in a year.

Should there be a general revaluation? Should the banding system be revisited? Should council tax be replaced?

Alternatives to council tax include local income tax, local sales tax or higher fees and charges. No option is likely to be popular and Governments have faced political difficulties in reforming local taxation in the past.

efficiency gains be made by more localised public services? *Such an option would in all likelihood lead to a variation in the types and quality of services provided by local authorities and allegations of a 'postcode lottery'.*

It is likely that local authorities will devise strategies that call on a mixture of the three options. However, it seems inevitable that they will still be left with difficult decisions regarding the provision of local services.

3. **More effective collaboration** - local authorities may be able to reduce costs by collaborating more on service provision and sharing innovative approaches. *Should such collaboration be allowed to progress freely or would there be a need for a more formal national template?*