

Paying for Localism

**How to revive local democracy
by replacing VAT with a Local Sales Tax**

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1. The problem of central control

“Localism” — the idea that power should be devolved away from central government to individuals and local communities — has attracted interest from across the political spectrum. Labour was elected on a manifesto commitment to ensure that “local decision-making should be less constrained by central government, and also more accountable to local people”.¹ The Liberal Democrats support “cutting back central government” to “leave more decision making to the local level, where local people understand local needs and priorities”.² The Conservatives have gone as far as to outline how accountability for delivering particular public services could be devolved away from Whitehall either to Town Halls³ or to individuals themselves.⁴

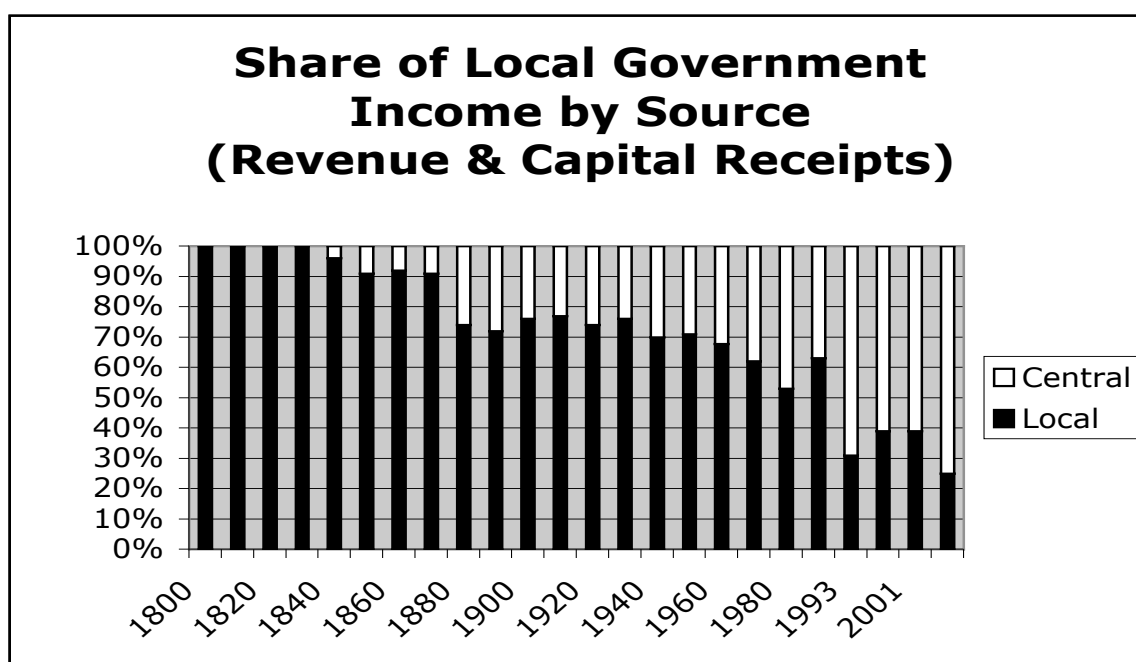
Whatever their political party, those wishing to decentralise control over public services away from Whitehall⁵ need to recognise that a prerequisite of effective localism is devolving the power to levy taxes in order to pay for any devolved local services. While central government is certainly able to micromanage public services through its legal powers to impose targets and guidelines across the public sector,⁶ perhaps the greatest lever of central control comes from its near-monopoly⁷ over tax collection. Since it collects well over 90% of public revenues, it is able to determine how that money is allocated, either directly (on public services such as health), or through intermediary tiers of local government (such as for education, social services and police). Decentralising control over certain public services demands devolved control over their finance; it means replacing Whitehall’s control over tax revenues with a system that allows local government to collect taxes and raise its own income independently.

Attempting to localise control over public services without devolving tax-collecting powers would be to attempt to impose localism from the centre. Such an attempt is likely to be short-lived and self-contradictory, in that Whitehall would continue to determine how public money was allocated. Giving lower tiers of government the ability to collect revenue independently is the only way to empower Town Halls to determine how public money is spent locally and what services should be provided locally.

The levers of fiscal control

Local government in Britain is today highly dependent on central government funding: more so than ever before, and more so than in most other countries.

Among OECD countries, only in Ireland is a smaller portion of local government expenditure financed through local taxation. In the United States, 62% of local revenue spending is financed locally; in France and Germany 66% of local revenue comes from local sources. In Switzerland, Sweden and Austria the figure is still much higher than the 25% of local government funding derived from local sources in the UK.⁸



Notes

1800-1970 - all data relates to England & Wales

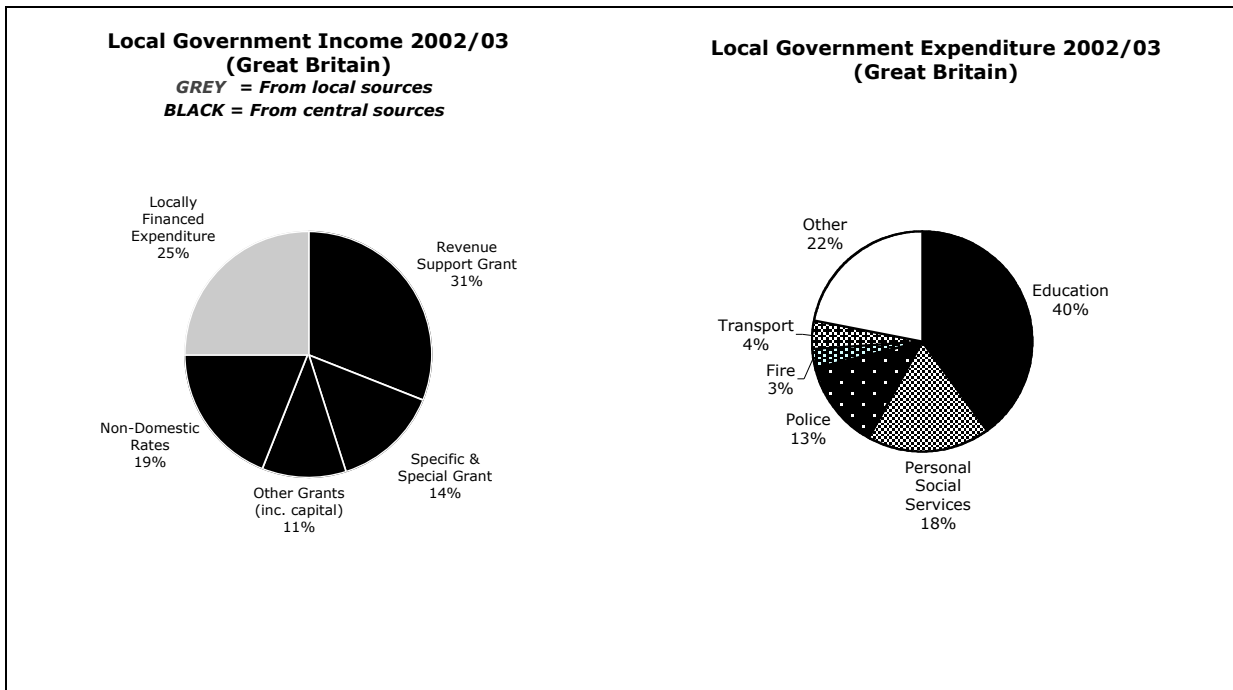
1980-2001 data relates to England only

1800 data relates to 1803 and 1810 data relates to 1813

Until 1835, when the first central grants were made, local government was entirely self-financing. By the beginning of the Twentieth Century, local authorities still only relied upon central government for about a fifth of their expenditure. Before the First World War, local authorities raised 78% of their total expenditure locally themselves. Prior to 1929, there was still no systematic central government subsidy to local government, and Parliament instead had to vote for specific “local government taxation accounts”. But by the outbreak of the

Second World War just a decade later, systematic central government subsidy meant that local authorities raised only one-third of their total expenditure locally.

As illustrated below (left), local government generates only a small portion of its total income, while (below, right) it is responsible for providing a variety of important local services such as education and housing. The following section aims to show that Whitehall not only controls the money coming in (left hand chart), but increasingly determines how the funds are then allocated in order to provide various services (right hand chart). Town Halls are increasingly stuck in the middle, left to merely rubber-stamp budgets set *de facto* by central government.



Whitehall’s control over income

Local government has two main sources of income; a *central subsidy* (consisting of various grants and a share of the non-domestic business rates allocated by Whitehall), and *local revenue* (largely the Council Tax) collected locally. As detailed below, this means that central government is directly responsible for three-quarters of Town Hall income — and indirectly determines Council Tax rates as well.

Central subsidy: The central subsidy, which accounts for three-quarters

(75%) of local authorities' income, comes from Whitehall in the form of the Revenue Support Grant (RSG) and other specific and ring-fenced grants.

Revenue Support Grants: Nearly one-third (31%) of local authorities' income comes in the form of the Revenue Support Grant from central government.

In order to determine the size of the Revenue Support Grant payable to each local authority, Whitehall calculates what it believes a local authority would need to spend in order to provide certain local public services, using a formula known as the Standard Spending Assessment (SSA). Changes introduced for the financial year 2003-04 saw the SSA formula replaced with a new method of assessing local government spending needs — the Formula Spending Share — giving Whitehall greater scope to take into account deprivation and other factors.

The Formula Spending Share imposes central government constraints on local authorities' discretion in setting their budgets. This is because:

- it is Whitehall which calculates how much a particular local authority needs to spend to provide a given local service;
- in doing so, Whitehall determines how much of the spending should be met out of the government grant; and
- Town Halls are left to set budgets on the assumption that they will raise the balance from their local Council Tax and other sources of local income.

Although the Revenue Support Grant is given to local government on a largely non-hypothecated basis, the fact that the allocation is made on the basis of Whitehall's assessment of what a Town Hall *ought* to spend does implicitly determine the Town Hall's actual budget.

Specific & ring-fenced grants: It is through specific and ring-fenced grants, however, that Whitehall's micro-management of Town Hall budgets becomes explicit. About one-seventh (14%) of Town Halls' income comes in the form of specific grants which they must spend in certain prescribed ways. The funds for policing, housing and local government reorganization, for example, come largely as specific grants, leaving the local authority very little discretion in how they are spent.

There has also been a sharp increase in the ring-fencing of grants since 1997,

and today some 15% of all local government grants are now ring-fenced.⁹ One recent estimate has revealed five separate ring-fenced streams of funding for education, fifteen ring-fenced streams of funding for personal social service provision, and eighteen ring-fenced streams of funding for police provision.¹⁰

Although Whitehall began to make specific grant allocations as early as 1958, the rise in the number of specific grants since 1997 has been accompanied by an increase in the number of such grants allocated on a bid basis. Bid-based specific grants leave a local authority operating as little more than the agent of Whitehall, chasing a pot of money to meet priorities set by remote central government institutions. The problem here is not simply that local priorities do not determine how such bid-based funding is spent; rather, Town Halls are being incentivised to do things that they and their electors do not believe are in accordance with local priorities.

National non-domestic rates: Around one-fifth (19%) of local government revenue income comes from *non-domestic rates*, set and allocated centrally.

Originally a form of local taxation, non-domestic rates were placed under central government control in 1990, when a single national rate was established, known as the Uniform Business Rate.

Although local authorities receive the proceeds from business rates, they are really no more than another form of central government taxation. Since revenues from the national non-domestic rate pool are allocated to local government alongside the Revenue Support Grant, local councils see very little difference between the two sources of income.

Council Tax and other local revenue: Only a quarter (25%) of local government income is raised locally, either through council taxes (about two-thirds of the total local income), or from other local authority sources of revenue, such as fees, sales and charges (about one-third of total local income).

As recently emphasised by the Audit Commission,¹¹ the fact that local authorities only raise a small portion of their total revenue locally does much to explain how Whitehall is able to determine the shape of their budgets. Whitehall sets the agenda, and Town Halls end up setting the Council Tax and local charges primarily to fill the gap that is left.

Also, with three-quarters of a typical local authority's budget coming from Whitehall, a 1% increase in its budget requires a 4% increase in council tax. This "gearing" makes Council Tax bills extremely sensitive to changes in the Revenue Support Grant, and means that any local council's decision to increase spending above Whitehall's assessment has to be shouldered disproportionately by local Council Tax payers.

Whitehall's control over spending

Whitehall's power to assess local revenue needs gives it enormous *de facto* control over how Town Halls allocate their budgets. But central government also possesses an array of *de jure* means of determining how Town Halls raise and spend resources, in the form of powers to:

- cap council spending;
- impose statutory obligations and targets to deliver certain levels of service; and
- determine how local authorities deliver certain local services.

Capping expenditure: The 1984 Rates Act gave central government the power to cap any local authority's expenditure that it assessed as excessive. From 1990, however, central government took additional powers to cap local government budgets pre-emptively where it deemed them to be excessive. From that moment on it was merely a question of time until Whitehall began to announce capping criteria before local councils came to set their budgets.

As a result, local authorities effectively cap themselves, Whitehall's power to assess what a local authority ought to spend was enough to ensure that by the late 1990s, more than four out of five local councils budgeted according to the provisional cap set by central government.¹² The claim by the current government to have abolished 1980s-style universal capping is therefore a hollow boast. Councils fear that if they choose to budget above the assessed limit, central government would respond by reducing their Revenue Support Grant.

Setting limits on local authorities' ability to raise resources has important consequences on their ability to deliver local services, since:

- by pre-emptively capping local authority spending, central government forces local authorities to seek to raise revenue from local

authority sources that cannot be capped, such as charges for local leisure facilities;

- councils that set their expenditure within centrally determined limits have been found to have spending budgets on average 4% lower than they would otherwise be;¹³ and
- according to the Institute of Fiscal Studies, pre-emptive capping has a tendency to impact on the education and social services budgets disproportionately, affecting the ability of locally elected councillors to finance education and social services irrespective of local voters' preferences.

Statutory obligations and targets set in Whitehall: On top of capping, central government is also able to determine certain minimum statutory levels of local service, which compel local authorities to spend money in a way they may not otherwise choose to. According to the Local Government Association, Town Halls have been afflicted by a "blizzard of targets".¹⁴

Town Halls today are obliged to produce *Strategy Plans* giving details of how they intend to deliver certain services. They are then assessed by Whitehall, through the Comprehensive Performance Assessment, to judge whether they have lived up to Whitehall expectations. Rather than merely imposing on local government a level of output, Whitehall imposes on them an obligation to achieve that output in accordance with what it judges to be best practice.

Key to this process has been the implementation of the *Best Value* scheme. Best Value, which replaced Compulsory Competitive Tendering within English and Welsh local government, seeks to maximize councils' economy, efficiency and effectiveness. It does so on the basis of performance indicators and national standards devised in London and Cardiff. Moreover, it gives quangos in London and Cardiff wide powers to intervene where councils do not perform as directed. Though it employs the language of efficiency, Best Value really diminishes the scope of local councils to deliver services in accordance with locally perceived needs.

The consequences of central control

Whitehall's ability to determine local government income and power to determine how Town Halls then spend their income creates economic

inefficiency and undermines local democracy.

Economic consequences

Constraining local authority expenditure, whether through capping or Best Value, prevents local communities from choosing a quality of local service for which they would be willing to pay the full economic cost through higher local tax bills. This rationing is bad economically, and bad for local democracy.

More fundamentally, central government control over local government ends up rewarding inefficient local authorities. Central government's allocation of grants to local government is made on the basis of assessing local authorities' spending needs against the actual level of local services. Perversely, a local authority that was efficient in terms of turning tax pounds into local services would normally not qualify for as large a grant as an inefficient local authority.

Political consequences

Central government control over local finances means that Town Halls are open to political manipulation from the government of the day. Indeed, the shift towards greater central control has largely been driven by national politics. For example:

- in the 1980s, the Conservative government sought to cap left-wing local authorities, which it believed were financially irresponsible;
- the current government has diverted resources away from the South-East of England in a way that it says reduces the "postcode lottery" but which its critics see as a crude move to favour its heartlands in the north.

The manipulation of local government for political reasons has denied local communities the power to determine for themselves how much taxation they should pay in return for various local public services — with profound consequences for the health of local democracy. This is evidenced in several ways.

Less local accountability: With every new set of standards and compulsory targets imposed on Town Halls by central government, local authorities and elected councillors become less accountable to local people, and more accountable to civil servants.

As local councillors lose their discretion to set their own budgets, there becomes a much less clear correlation between whom local voters elect, the

standards of local services that they get, and the rate of local tax that they end up paying.

Less local democracy: With Whitehall calling the shots, it is often simply impossible for local political rivals to stand for election offering voters credible tax and spend alternatives. It does of course remain possible for a local politician to be elected with a pledge to deliver a specific local service that went beyond central government's assessment of local needs. The four-to-one gearing effect, however, would militate against such an independent approach to the setting of spending priorities.

Less local diversity: Centrally imposed standards and targets, coupled with a grant allocation formula based on Whitehall's assessment of local needs, has diminished the ability of voters to determine tax and spending levels locally.

Voter resignation: Compared to voter turnouts in the last three General Elections of between 59% and 77%, turnout in the last three rounds of local elections in England has hovered between just 29% and 35%. With so few voters bothering to take part in local elections, it is often said that the local electorate is "apathetic".

But recent opinion polls showed that a strong 91% of the public are dissatisfied with the services provided by their local authority¹⁵ and almost 60% believe that their local authority fails to provide value for money.¹⁶ Far from being apathetic, local electors are resigned. They choose not to vote since they recognise that local government counts for little when it comes to setting the Council Tax or determining what services are delivered. Since local councillors have lost much of their discretion over local taxes and spending priorities, the public has perceptively recognised there is little point in voting for them.

International comparisons provide evidence for this. In Western industrialised countries where local authorities are self-financing to a much greater degree, voter turnout in local elections is much higher: around 60% in France and 70% in Germany, for example. And the minority who do vote in British local elections may be motivated less by the desire to pass judgement on local councillors and more by the opportunity to send a message to the national government.

Lilliputian local government: Unable to wield real decision-making power over local affairs, there is perhaps less of an incentive for candidates of the highest calibre to enter local politics. Today those standing for local government must be willing to be nannied and micro-managed by a distant bureaucracy.

Inherently politicised local government: Has less local democracy had a political impact on the way that Town Halls are run? Clearly, the centralisation of power has allowed both Conservative and Labour governments to manipulate local authorities for political purposes. Beyond that overt distortion of local politics, central control has had a more subtle impact on the nature of the local government that serves local voters. For example:

- Whitehall imposes minimum standards of local service provision, without setting ceilings on the maximum level of service provision. This favours local politicians standing on the basis that the Town Hall should do more, not less;
- Whitehall's ability to assess local needs means that local authorities who do not spend "up to cap" may be penalised with a reduced Revenue Support Grant. Low-spend politicians are therefore open to the accusation that their thrift would mean getting less money from Whitehall;
- high-spend local politicians have a plausible excuse that Whitehall is to blame if local services do not seem adequate, since Council Tax cannot be raised above cap;
- inevitably and increasingly, central control has drifted beyond setting minimum standards of local service provision, to specifying in detail the way in which those services and standards should be delivered.

2. Principles for change

This chapter outlines what criteria any proposal to devolve tax raising powers away from Whitehall to the Town Halls would need to meet.

The nature of reform

Recognising some of the failings in the current system of Whitehall control, the government published in 2001 a White Paper, *Strong Local Leadership – Quality Public Services*. This suggested various ways by which Whitehall might relax some of its more stringent controls over Town Halls. According to a House of Commons select committee, the Bill that then followed was “far from a radical overhaul in relations between central and local government”.¹⁷ Giving a few “best-performing” local councils greater autonomy to set their Council Tax does little to devolve power, since it is still Whitehall that determines what constitutes a “best performing” council. Removing formal powers to cap local expenditure is a red herring when central government still decides how much each council “needs”. And making the basis of that decision even more subjective must widen the scope for political manipulation yet further. Indeed the Commons select committee went on to claim that “in many cases [this Bill] gives more powers to the Secretary of State” and to express concern that “aspects of the Bill centralise power unnecessarily”.

The Conservatives meanwhile have spoken of doing more to ensure that a greater proportion of local authority income is raised and controlled locally, and have ventured the idea of scrapping various central controls by reforming the Comprehensive Performance Assessment, which formulaically determines the size of local authority budgets and is a key instrument of central control. Neither approach goes far enough.

The case for real reform

For local councillors to be set free, the statutory powers that enable Whitehall to determine how they allocate public money would need to be scrapped. Yet as demonstrated in Chapter 1, the key driver of central control over Town Halls is the fact that they depend on Whitehall for their income. And that dependence

does most to determine how the money is spent.

In 2002/03, local government raised only 25% of its revenue budget locally, while 75% came from allocations determined by Whitehall. To become 100% self-financing, local government needs to be able to collect for itself the 75% of its funding that it currently gets from central government and take control over the sources of revenue we have already identified.

Local revenue (25%): Local government should retain the existing range of powers to raise revenue through both council taxes and other local charges, though it would be for Town Halls to determine what percentage of their overall funding came through existing local revenue sources.

Central subsidy (75%): Key to making local government 100% self-financing would be how to allow Town Halls to raise locally the money (around £66b overall) that presently comes in the form of the central subsidy from Whitehall. Town Halls would need powers to raise locally the amount they currently receive from the non-domestic rate allocation and the various central grants.

If the power to set and collect **non-domestic business rates** (19% of total funding) were returned to local government (as was the case until 1990), this change alone would leave local government collecting nearly half of its revenue locally.

First principles for self-financing local government

What then could replace the central subsidy? There are many possibilities, but before looking at the options for raising the money, it would be wise first to understand the key principles that any such reform must adhere to. There are five key tests.

Devolved, not additional taxation

The first principle for reform is that any new system should devolve tax-collection powers to local authorities, rather than simply adding a new local tax on top of what exists already. Since Whitehall would no longer be paying out some £66b to Town Halls, it would no longer need to collect that sum through central taxation; and people would certainly regard things as unfair if it did. Any number of local tax systems could be devised; but unless such a regime

substituted, rather than added to, existing central taxes, that would just be a recipe for higher overall taxation.

Local accountability

Town Halls currently collect revenues equal to 8% of the total national tax burden. If Town Halls were to be devolved the power to collect locally taxes in place of the central subsidy, they would be responsible for about a quarter of the total national tax burden. It essential that they are locally accountable for how they exercise such massively enhanced fiscal responsibilities.

Transparency

A new system of local taxation would need to be clearly perceptible to local taxpayers and voters. They would need to understand easily how much tax they were paying to which local authority and for what services.

Practicality and cost-effectiveness

Collecting tax can be expensive. The higher the costs of tax collection the less effective a tax system becomes. Any new system of taxation would need to be practical and cost-effective to both those who collected it and to those who paid it.

Fairness

Setting aside the broader philosophical questions as to whether taxation should be regressive or progressive, in purely practical terms both the anti-Poll Tax demonstrations and the more recent civil disobedience over high fuel taxes show that it is not politically feasible to impose a form of taxation that significant sections of the population deem to be unfair.

Armed with these principles, let us make our way some of the proposals that have been made for new systems of local taxation. Which are worth a second look, and which should we commit to the flames?

3. What are the options?

This chapter reviews the local tax options that would allow Town Halls to collect the money they currently receive via the central subsidy. It asks how local government might raise locally the £66b or so that would be needed, against the basic principles outlined in Chapter 2.

Higher rates of current taxes

Could local government be made self-financing by simply allowing them to raise all of their revenue through local council taxes and non-domestic business rates?

Higher Council Tax

In order to raise sufficient revenue locally in place of the central subsidy, Council Tax would need to be increased by approximately 300%. While the maths might add up, doing so would hardly meet first principles.

Devolved, not additional: Simply allowing councils to increase Council Tax revenue by 300% to replace the central subsidy would not amount to a devolution of tax-collecting powers — just an increase in the amount of tax collected locally. Even if any increase in the local tax take were offset by a corresponding cut in national tax, the actual power to levy taxes would not have been devolved.

Local accountability: If Council Tax were increased, accountability might be sharpened, in that Council Tax payers would become more aware of the real cost of their local government. On the other hand, some 40% of electors do not pay any Council Tax at all, and can vote for high-spending councils without suffering any of the cost. If Council Tax were to rise by 300% or so, this problem would be even more pronounced.

Transparency: In today's Council Tax system, electors find it hard to separate the conflicting messages put out by the different local and national politicians about who is responsible for any rises (or, rarely, falls). This would be no different under the proposed system.

Practicality and cost-effectiveness: As with most property taxes, Council Tax is relative easy and cheap to collect. It currently costs local authorities in England and Wales £375m a year to collect Council Tax. It is likely that a 300% increase in council taxes would not involve significantly higher collection costs.

Fairness: Council Tax increases averaging 12.7% in 2003/04 have made Council Tax an extremely sensitive political issue already. It is highly unlikely that a 300% rise in Council Tax would be regarded as fair, particularly if such an increase were not offset by a commensurate fall in national taxation.

A higher Business Rate

An alternative to a 300% rise in council taxes would be to simply increase business rates to raise the £66b needed. But to do this, business rates would have to rise by even more than 300%.

Devolved, not additional: Letting local councils set their own rates of business tax would undoubtedly amount to a devolution of tax collecting power, reversing the 1990 nationalisation of business rates. In that sense a new “Super” local Business Rate meets the one of our principles for reform. It fails, however, to meet any of the others.

Accountability and transparency: With only a minority of local voters liable to pay it, such a local tax system would hardly encourage accountability or transparency.

Practicality and cost-effectiveness: A more fundamental problem is that a 300% increase in the rate may well damage local business so much that it does not actually lead to a 300% increase in tax take. Faced with such a huge hike in local tax liability, local businesses may simply decide not to pay, either by relocating (to another local government area, or even to another country) or by going out of business.

Fairness: A massively increased local business rate would be grossly unfair, since only a minority of people would pay it (at least, directly).

It is clear that local government cannot be made self-financing through the existing Council Tax system or through a reformed local business rate alone. If

they are to replace around £66b of central government subsidy, Town Halls need to be given an entirely new means of raising revenue locally, so that they have a mixture of local revenue streams.

A Local Income Tax

Another proposal has been to introduce a Local Income Tax in order to make local government self-financing.

As long ago as 1976, the Layfield Committee review of local government funding suggested that a Local Income Tax was a “feasible major new source of income [which] could perform a major role in local finance”. As well as being Liberal Democrat Party policy, the (Conservative) Bow Group’s recent paper on local government finance¹⁸ advocated it. Moreover, Local Income Taxes provide much of the funding for local government in other countries, most notably Sweden. Could one raise the money needed to make Britain’s local government self-financing too?

To find £66b would require raising average Income Tax rates by between 4-5p in the pound. But how could Town Halls collect the extra 4-5p in the pound in order to make it a *Local* Income Tax? There are perhaps three methods:

- **A genuinely Local Income Tax:** A Local Income Tax could be a genuinely *Local* Income Tax, set and collected by each local authority.
- **A locally hypothecated national Income Tax:** Alternatively, a Local Income Tax could be an addition to the existing national Income Tax system and collected by the Inland Revenue — a locally set and earmarked portion of the national Income Tax system.
- **A hybrid:** Between the two extremes, it is possible to envisage a situation where the Local Income Tax was set and collected separately by local authorities, but using data provided by the Inland Revenue.

So how to these different options measure up to the tests we have proposed?

Devolved, not additional taxation: The problem faced by many of those who advocate a Local Income Tax is that they are not arguing for a genuinely *Local* Income Tax. Rather they are suggesting that local councils be able to add a hypothecated band onto the existing rate of national Income Tax.

A higher overall rate of Income Tax, albeit with a percentage of it going to your local council, does not really amount to a genuine devolution of tax collecting powers. In return for giving up the Council Tax, Town Halls would be minority partners in a significantly expanded national Income Tax system.

Practicality and cost effectiveness: To avoid this problem of having to nationalise the collection of a supposedly local tax, it could be argued that a Local Income Tax would be set and collected by each local authority. One of the reasons why advocates of a Local Income Tax have, in the main, not done this, is that it would be neither practicable nor cost-effective.

As Douglas Mason showed in 1985¹⁹ using evidence provided to the House of Commons Environment Committee, a Local Income Tax collected separately by each local authority would cost (even then) £500m and require more than 50,000 new tax collectors. Despite the cost advantages of having a computerised tax system in 2004, collection costs and staff costs today are unlikely to be lower. For practical reasons, it is therefore likely that a Local Income Tax would need to be collected (as it is in Sweden, and as proposed by the Liberal Democrats) as part of an aggregate Income Tax consisting of both the national and the Local Income Taxes.²⁰

Local accountability and transparency: Accountability and transparency depend on local taxpayers knowing precisely who is setting their tax bills. A genuinely *Local* Income Tax, set and collected locally, would thus meet our criteria in terms of local accountability.

However, a Local Income Tax system that existed merely as part of the national Income Tax system would not. With the Inland Revenue collecting both the national band Income Tax, and the much smaller band of Local Income Tax, the system would be seen as largely a national tax. If a Town Hall decided upon a 1p in the pound increase in the Local Income Tax component, local electors may not necessarily hold their local authority responsible. It would be just as opaque as the current Council Tax system — where taxes are collected by district councils, but set by both districts and counties — and would leave electors equally confused as to who is truly responsible for the bills they face. (The relative transparency of Sweden's Local Income Tax is due to the fact that Swedish Income Taxes are predominantly a local — rather than a national — system.

Moreover, with approximately 40% of voters paying no Income Tax at all currently, it would be possible for a significant section of the electorate to vote in high spending councillors in the knowledge that other people would have to meet the cost.

Fairness: It is far from clear why a Local Income Tax would be seen as any fairer than the current Council Tax system. According to the Bow Group's proposal, Income Tax payers would have to shoulder an increase in "*the average local tax take across England of 168%*". With only about 60% of local voters paying Income Tax,²¹ it is difficult to believe that those having to shoulder this extra tax burden would regard it as a fair taxation.

Furthermore, neither the Liberal Democrat nor the Bow Group proposals for a Local Income Tax would leave local government self-financing. The Bow Group proposals admit that three out of ten local authorities would still have to rely on top-ups from central government.

A per-capita charge or "Poll Tax"

Perhaps the simplest form of local taxation would be a levy charged on each individual adult. Its very simplicity was one of the reasons that persuaded the Conservative government to introduce the Community Charge in 1990. At a stroke, this local "Poll Tax" (as it was dubbed) gave local government the power to raise more of its income locally.

In order to raise the amount needed to make local government self-financing, the average Poll Tax of today would work out at an average bill of well over £1,000 per year. Setting aside the political difficulties of seeking to reintroduce what became such a controversial system of local taxation, would it meet our principles?

Devolving freedom to raise income locally: Giving local councils new powers to levy a Poll Tax would not ensure a net devolution of tax raising powers, since central government would not be ceding any of its tax collecting powers. Any such Poll Tax would be an additional new local tax, rather than a substitute local tax to replace the Town Halls central subsidy.

Even if a politician were willing to return to the idea of a Poll Tax in the

foreseeable future, it could probably be as no more than an addition to the existing Council Tax. As opposition to the current Council Tax regime seems to be growing, it is highly unlikely that any local politician would flourish by standing on a platform of the existing Council Tax scheme, plus a new version of the Poll Tax.

Local accountability and transparency: Proponents of the 1990 Poll Tax saw it as an attractive means of financing local government precisely because it created real local accountability. With every local taxpayer paying a simple, highly transparent charge for local services, electors would be more aware of the true cost of local services and would know whom to hold to account. There is some evidence that in Scotland, where the Poll Tax was in force longer than in England, voters were indeed beginning to turn against higher-spending council candidates.

Practicality and cost-effectiveness: Proponents also argued that the Poll Tax was relatively practical and cost effective to collect.²² However, the reality of a highly mobile population created practical collection problems. There were also problems with students, welfare beneficiaries, and other groups who found it difficult to pay the charge, requiring the establishment of less-than-transparent rebate or exemption systems.

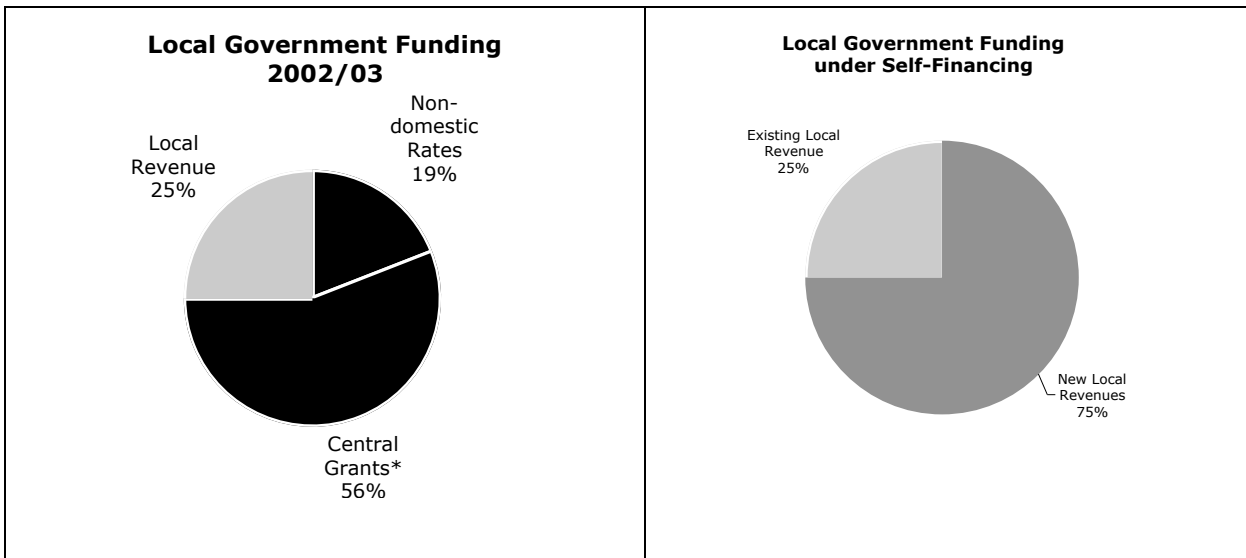
Fairness: The history of the Community Charge shows the danger of attempting to implement local government tax reform that is not perceived as fair. Despite the theoretical arguments as to the enhanced accountability it would bring to local government, in reality many local voters blamed the national for what they perceived as a sharp new increase in local tax. A significant minority of people refused to pay it, and the civil disorder that followed put pressure on the government to abandon the scheme and to introduce, perhaps over-hastily, the Council Tax.

To conclude, none of options outlined in this chapter would make local government self-financing while meeting the principles for change. Rather than looking at what new forms of local taxation Town Halls could use to collect some £66b of revenue locally, perhaps the solution lies in asking what national tax collecting powers could be transferred to the Town Halls, so as to enable them to become self-financing.

4. A Local Sales Tax in place of VAT

The design of a Local Sales Tax

It is an interesting fact of the fiscal arithmetic that VAT raises for central government approximately the same amount of money that central government pays out to local government. In 2002/03, central government raised £64b through VAT, a sum very close to the £66b that is paid out to local government through the central subsidy. In other words, government could be made entirely self-financing, central government grants and non-domestic business rates scrapped, if in place of a national VAT, local authorities had the means to collect a similar amount of revenue by setting their own Local Sales Tax.



Mechanics of VAT and LST

The power to collect VAT could be devolved to Town Halls so that they, rather than central government, took the proceeds. But to do this in any remotely manageable way, VAT would need to become a Local Sales Tax chargeable at the point of retail, rather than a local Value Added Tax added on at each stage.

VAT is a percentage charge imposed at every stage of the manufacturing or transaction process.²³ However, it is payable only by the end consumer, since at

each other stage of the transaction process the VAT charge can be reclaimed by the businesses in the supply chain.

Take for example an imaginary manufacturer of wooden desks. A timber merchant produces the wood needed to make the desks, charging the manufacturer (say) £1000, plus VAT of £175 (which has to be paid over to the government). The manufacturer reclaims the £175 of tax paid, then sells the desks to a furniture shop for (say) £100 each, plus £17.50 VAT (which again has to be paid over to the government). Only when a (non-VAT-registered) member of the public buys a desk is the chain broken: the shopkeeper reclaims the tax from the government, but the end customer cannot, and the government is £17.50 richer for each desk that is sold.

In similar vein, a Local Sales Tax would need to be payable only at the final consumer point of the transaction chain. It need not be charged at each stage of the transaction process. Indeed, with Local Sales Tax jurisdictions perhaps imposing different rates of tax, it would be impossibly complicated to net out the tax paid through each stage of a long transaction chain. Rather, for practicality and simplicity, a Local Sales Tax would apply only when a final consumer purchased any good or service.

What rate of Local Sales Tax?

A key point of a Local Sales Tax is that different local authorities would each set their own rate. As we have seen, to raise the £66b needed to replace the central subsidy, Town Halls would need to collect about the same amount as currently raised through VAT; and a Local Sales Tax of 17.5%, chargeable at the final retail point, would (like VAT) raise around £64b in 2002/03 prices,²⁴ closing the gap rather neatly.

As a starting point, therefore, we would expect local authorities to set Local Sales Tax rates at an average rate of (roughly) 17.5%, though the local rates could vary considerably. Some authorities might choose to set a higher rate in the hope of raising more money for better local services; others may tolerate service cuts in order to keep the rate down. Still others may believe the logic of the “Laffer Curve”, that setting lower tax rates would actually net them greater revenues; and indeed business and trade might well be attracted to low-tax areas, broadening the tax base and so helping to produce that happy result.

Which tier of local government?

We would need to determine which tier of local government would levy a Local

Sales Tax. With approximately 8,500 parish, county, district and metropolitan local authorities throughout Britain, not every tier of local government could constitute a separate tax jurisdiction. One possibility would be to give county, metropolitan and unitary authorities the power to charge their own Local Sales Tax; an alternative might be to push the powers even lower, down to district council level; third option would be to allow the county, metropolitan and unitary authorities to set and collect the Local Sales Tax, but to give smaller district or borough authorities within the tax jurisdiction some of the proceeds from the Local Sales Tax.

Meeting first principles

If local government were able to raise an amount equivalent to that raised each year from VAT, it would (through a mixture of the existing council tax and the Local Sales Tax) become entirely self-financing.

Devolved, not additional

Replacing VAT with a Local Sales Tax would amount to a dramatic devolution of tax collecting powers to the Town Halls. Central government would no longer raise £64b of VAT revenue and allocate £66b in central subsidy to local government. Town Halls would have the power to raise all of their revenue locally. Unlike proposals for a Local Income Tax or a new Poll Tax, turning VAT into a Local Sales Tax amounts to an unambiguous net devolution of tax collecting power.

Local accountability

Making local government 100% self-financing would ensure far greater local accountability. Instead of only a quarter of what is spent being raised locally, every pound would be raised locally. By itself, this would not give local government complete freedom to spend its resources (for example, certain statutory obligations may remain in place). But it would instantly remove the constraints that stem from central government's determination of local council spending needs. Without either the Standard Spending Assessment, or the ring-fenced Revenue Support Grant and the specific grants that come with it, many of the levers of central control would simply no longer exist.

The impact of this would be profound. Locally elected councillors would be responsible for determining how much tax was raised locally and what levels of

service the council provided in return. In the absence of central control, councillors would have no excuses for failing to match voter expectations. Local elections would be fought over decisions that had been taken in the Town Hall rather than Whitehall. Through the ballot box, local voters would be able to determine local spending priorities in accordance with their perception of local needs.

Transparency

A flat LST payable on retail transactions would be easily understood. Retailers, as they do in certain US states that have a Local Sales Tax, would probably label goods with both the net price and a gross price that includes the Local Sales Tax. Indeed, obliging retailers to make the tax explicit would boost transparency: people would then become only too well aware of how much they were paying for the provision of local council services. Contrast that to the situation today, where few electors know who is actually paying for local services.

Practicality and cost-effectiveness

A key attraction in a Local Sales Tax is the fact that it is relatively straightforward to collect, unlike a Local Income Tax.

Too costly and complex to collect? A Local Sales Tax would be relatively straightforward to collect and administer. It would certainly be simpler than the existing VAT regime, which is notoriously bureaucratic for all businesses in the supply chain. While VAT is added on (and reclaimed) at each stage of the supply chain, an LST would be payable only at the final retail point. There would be none of the complex calculation of VAT liabilities and the form filling needed to reclaim VAT from the government.

Unlike VAT, which is a national tax, a Local Sales Tax would be collected by multiple tax jurisdictions. Some commentators have used this to assert that this alone makes the idea of variable Local Sales Taxes prohibitively expensive to collect.²⁵ But that is to miss the point. VAT is not collected centrally — even if it is all payable to Customs & Excise. Rather, it is collected by each and every VAT-registered business across the country. In the same way that VAT is made on the basis of self-assessments, followed through by spot checks and other audits, so to would the Local Sales Tax.

A local authority would receive LST payments from local businesses and retail outlets. There would clearly be many fewer within than the current number of households liable for Council Tax, and most of those already have

electronic accounting systems that would make their Local Sales Tax liabilities relatively easy to calculate.

Too crude and inflexible? Another criticism of a Local Sales Tax is that it could prove to be a crude and inflexible tax instrument. A change in the tax rate of 1% could have huge revenue implications, and would make a huge difference to people's shopping bills over the course of a year.²⁶

While this is true, a Local Sales Tax is no more crude than Income Tax, where raising the basic rate up or down a percentage point also has large revenue implications. Moreover, there would be nothing to stop a local government adjusting rates by halves, quarters or even tenths of a percentage point. In the United States, changes of just a fraction of a percent in the Sales Tax rate often lead to very heated local debate.

Too unpredictable? There would be a degree of unpredictability with any Local Sales Tax. Local tax authorities could not expect to predict local sales volumes with absolute accuracy. Unlike the Council Tax, where a local authority can estimate fairly accurately the amount of revenue likely to be collected each year, local authorities would need to budget on the basis that LST yields could vary, depending on local economic conditions.

This would certainly be a concern, and even if a Town Hall set aside the temptation to set budgets that corresponded with the electoral, rather than the economic cycle, it is perhaps not realistic to expect even the most prudent local authority to create surplus accounts in good years to offset shortfalls in the bad. However, a relatively simple solution to cyclical revenue changes would be to allow local authorities to issue bonds and borrow.²⁷ They would then be able to balance their books and deal with any shortfalls in year-on-year income projections.

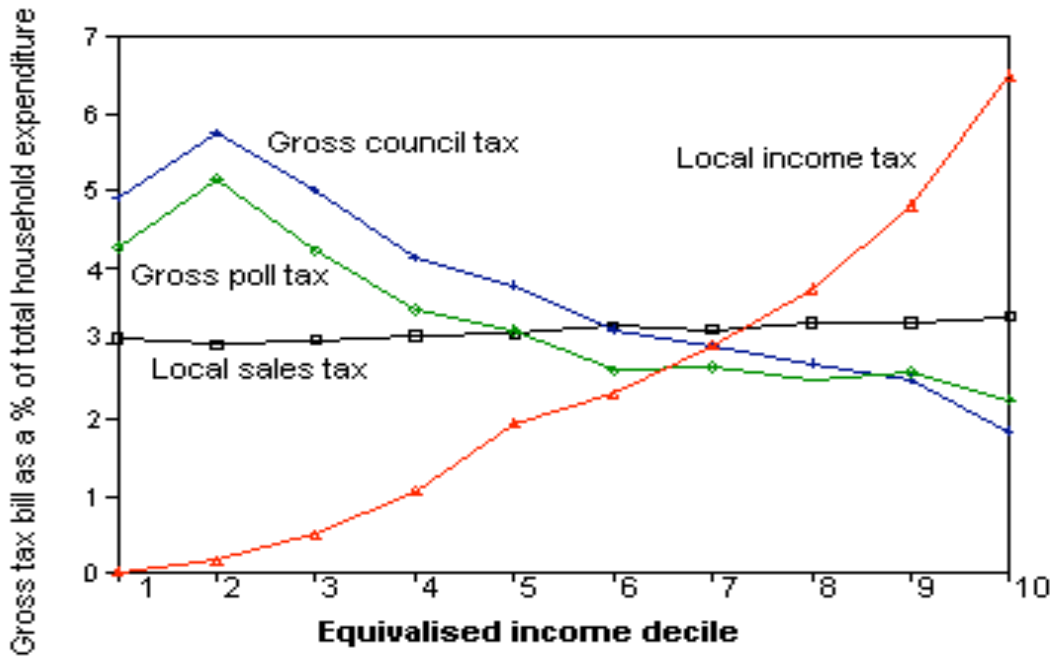
Fairness

A key attraction to a Local Sales Tax is its fairness. As it is a tax on consumption; the more that you buy, the more tax you pay. Everybody pays the tax whenever they purchase goods or services, although wealthier people will pay more because they (usually) buy more.

Indeed, compared with the alternatives, the burden of an LST would be relatively neutral, with payments being equitably shared across all income groups.²⁸ If not as "progressive" as a Local Income Tax, an LST would arguably

be fairer. While only something like 60% of the adult population would be liable for Local Income Tax, everyone would be liable to pay at least some Local Sales Tax.²⁹

Distributional burdens of various local taxes



SOURCE: Institute for Fiscal Studies

Certain categories of local taxpayers, such as low-income households, are currently able to claim rebates to avoid paying the full cost of council tax. Unlike Council Tax, or indeed many of the other alternative forms of local tax, it would be more difficult to offer tax rebates to LST payers, since the tax is levied at so many different times on so many different purchases. A point-of-sale rebate system could also be open to significant abuse. That said, overseas visitors today can claim VAT rebates on certain goods, and it should certainly be possible for local authorities to provide some sort of rebate, exemption, grant, or voucher for particularly needy groups.

Possible drawbacks and how they can be overcome

There are three arguments that could be raised against this radical proposal for the reform of local government finance. One is the argument that the European Union lays down rules for VAT and that re-casting it as a Local Sales Tax would

not be permitted. Another is the argument that a Local Sales Tax would create anomalies as people shopped across local government boundaries to take advantage of tax rate differentials. A third is that more commercial areas would benefit at the expense of poorer or more residential ones. Let us address these three arguments in turn.

European Union obligations

VAT replaced the existing UK Purchase Tax regime in 1973, when the UK joined the European Union (then the European Economic Community). As with the other VAT-type taxes within each of the EU member states, the UK's VAT regime is governed by the 6th EC Directive. This ensures that member states establish roughly similar VAT-type tax systems, both in terms of what can be exempted from VAT, and the VAT rate itself.³⁰ The Directive specifically forbids variable VAT rates within any member state, such as the UK.

In addition to EU obligations in terms of setting VAT rules, the UK is also obliged to use money raised from VAT to pay contributions towards the EU. Indeed, approximately 40% of the EU's "own resource" funding comes from contributions made through VAT-type taxes within the EU.

Any attempt to replace VAT with an LST would require substantial revisions to both the 6th EC Directive, as well as changes to the current EU funding arrangements:

Renegotiation of the 6th EU directive: The 6th EU Directive has no direct and binding effect in the UK, since as a Directive (as opposed to a Regulation), the UK is allowed to draw up local legislation enacting its provisions. Indeed, the Directive is currently subject to a review and renegotiation: the UK could therefore seek new terms that would allow local authorities to introduce a variable-rate LST in place of the standardised national VAT.

Reform of UK contributions to the EU: The presumed role of VAT in funding EU expenditures is again no impassable barrier to reform. The EU is not in fact *directly* funded from a proportion of UK VAT receipts; our contribution is paid out of the general totality of tax receipts. VAT receipts are just one of a number of tax revenues that goes into that general pool of tax from which our EU contributions are paid. Even with national-level VAT replaced by a local-level LST, the UK could still continue to make the same net contributions towards the EU.³¹

In any case, it is often stated by UK and European politicians that the EU needs to be made more flexible. Amending Britain's existing treaty obligations to the European Union in order to enable Britain to reform her own local government finance would be a way of turning the rhetoric of a more flexible EU into a reality. To argue that local government finance in Britain cannot be reformed because of our EU obligations would be to admit that the Union was incompatible with any genuine devolution of power. That would serve only to swell the ranks of the Euro-sceptics at a time when criticism of the Union is already growing.

Evasion and avoidance

Would a Local Sales Tax encourage the "smuggling of butter over Epsom Downs"?³² Well, it would certainly encourage people to shop outside their own local government area if they thought the potential savings were large enough to make it worth the effort. The higher the differences between local tax rates, the more worthwhile it becomes to shop around.

But we must distinguish between tax *avoidance*, which is perfectly legal, and tax *evasion*, which is not. Unless there is to be some law against transporting goods across local government boundaries — which would seem both draconian and unenforceable — then cross-border shopping is merely avoidance, and therefore legal.

What locally-set rates of tax might encourage, in other words, is not so much "smuggling" (which is a form of evasion and therefore illegal), but people legitimately choosing to buy goods in a lower-tax area rather than in a higher-tax area. The bigger the differences between local tax rates, the more people will make this choice.

Experience from the US and in Europe suggest that when local sales taxes vary by more than about 5%, a noticeable number of people will indeed make the effort to travel in order to avoid the tax — just as millions of Britons today make special trips to France in order to stock up on beer and cigarettes. But such "tax competition" between local authorities would serve as a useful incentive on them to keep their tax rates in check and focus on providing good value — since they would no longer be able to force large tax rises on a captive population of taxpayers.

Yet there could be evasion too. Just as a 17.5% VAT rate encourages people to evade it (by paying tradespeople in cash, for example), there would be those who

sought to find ways to evade a Local Sales Tax. If local LST rates were sufficiently divergent, there might certainly be a temptation for people to buy goods in a low-tax area and sell them on for cash in a high-tax area without paying the LST liabilities — just as some people profit illegally by smuggling beer and cigarettes into the UK from France, and then selling them on to others. But again, the best solution is for local authorities to keep an eye on their tax rates so that they do not encourage this kind of evasion, which of course would involve them in a loss of revenue too.

And of course it would be necessary for local tax authorities to spot-check and audit businesses' books — as they do with VAT. A system of punishments would be needed to deter those who sought to evade payment.

Inequitable distribution of tax income

Not every tax jurisdiction would have the same ability to raise revenue through a Local Sales Tax. While millions venture into London to shop, Norfolk sits on the end of a largely rural peninsula. Moreover, certain parts of the country face far higher demands for certain local services. Given the unequal distribution of Local Sales Tax income, and the unequal demand for services, would not central government still have to top up local revenues in order iron out such differences?

On the face of it, the argument for some form of top-up seems strong. But two points need to be made.

Firstly, given the scope for tax competition between different local tax jurisdictions, with increasing mobility, and technological innovations (such as on-line shopping), even the most geographically isolated tax authority would be able to create a low-tax, business-friendly environment. Far from being trapped by geography and disadvantage, local authorities would be able to use their tax-setting powers to attract in the businesses that generate the tax revenue. A top-up system should not therefore remove this incentive on Town Halls to do all that they can to overcome the inequalities for themselves.

Secondly, any top-up system should not encourage local authorities to give up on collecting taxes locally, on the grounds that the national government would bail them out anyway. (Though much obscured by other events right now, the current crisis in local government finance in Israel has, in part, been caused by knowledge within the Town Halls that any shortfall in local revenue will probably be offset by a central top-up.)

Longer-term advantages

Against all these objections, nevertheless, must be pitched the positive benefits that would come from replacing VAT with a Local Sales Tax.

Tax competition

Perhaps the single greatest attraction in having multiple Local Sales Tax jurisdictions is the fact that it would create tax competition. With different local tax areas charging different LST rates, there would be a strong element of competition. As Keith Marsden has pointed out, “different tax rates in localities would be an advantage that stimulates innovation, competition and choice and facilitates a dynamic and adaptive economy”.³³

Competition to do business in a lower-tax jurisdiction: With different rates of Local Sales Tax in force, the cost of shopping would vary across the country, and people could have an incentive to travel from the tax jurisdiction in which they reside to others with a lower LST. Clearly, not every shopper would be able to travel around to take advantage of lower LST rates in neighbouring tax jurisdictions (and for most routine purchases, that might be a waste of effort anyway). But there is at least more opportunity for people to escape high taxes than there is today, where everyone is a captive of the standard VAT rate of 17.5%.

Competition between tax jurisdictions: When determining what rate of LST to set, local authorities would sometimes be in direct competition with each other. Set the rate too high, and retail sales may slump, followed by a fall in revenue. Set the rate too low, and the boost to in retail sales may not always be enough to avoid a fall in revenue. But far from being a disadvantage, the inherently competitive nature of an LST system would greatly enhance local accountability, efficiency, and transparency, and lead to a more effective tax system.

Dynamic accountability

The potential for cross-border shopping would act as a safety valve against maverick councils who abused their power to set taxes by raising rates irresponsibly. Elected councillors who raised the LST rate to the point where they impelled local residents to shop across the border are unlikely to remain elected for long. Equally, any local councillors that cut taxes to the point below which the

local council could deliver a standard of local services deemed acceptable by the local electorate, would be unlikely to remain in office for long either.

Contrast that to the current system of local government finance, where Council Tax bills rose by an average of nearly 13% in 2003/04 (about six times the rate of inflation), without local voters being credibly able to blame their local councilors, who have protested that they have simply been at the mercy of changes in the central government's assessment of their revenue needs.

More efficient local government

In order not to lose retail trade and economic growth to neighbouring tax jurisdictions, local councils would constantly need to balance the need to raise enough revenue from the LST to deliver local services, with the need to keep the rate as low as possible. This would create a self-discipline for local government to squeeze out of each pound collected in tax revenue the maximum level of local service provision.

Again, compare this to the existing system of local government finance, which often incentivises local councils to raise spending up to maximum expenditure limits without any corresponding necessity to increase the level of services delivered.

More efficient tax rates

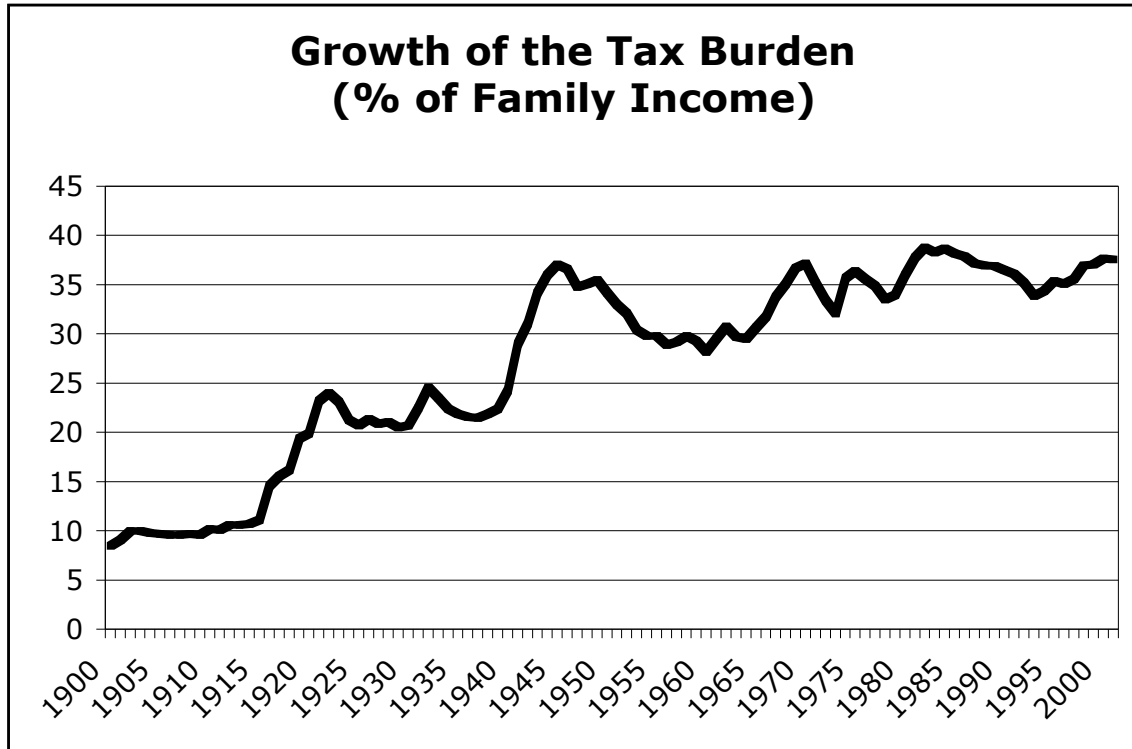
Raising tax rates does not necessarily mean increasing the amount of revenue collected. Nor does cutting taxes always mean lower revenues. Taxes have rate at which they yield the highest amount of revenue — the optimal tax rate.

With a monopolistic national VAT rate, there is little dynamic to adjust the rate of VAT towards its optimal level. With a system of local tax competition within the UK, however, there would be a powerful incentive for local governments to try to set the LST rate at a level that fostered strong local economic growth, while maximising revenue. Equally, local governments would not want to cut their LST beyond the optimal rate — since, although this might boost the local retail trade, they would collect too small a percentage from each transaction to maintain their revenues. Precisely because there would be an element of tax competition, the aggregate LST rate would be much more likely to settle at its optimal rate.

Reversing the tax ratchet

Today, without any element of competition between tax-raising authorities, there has been no check on spiralling taxes. Indeed, last century saw a tax ratchet, a

seemingly unstoppable growth in the percentage of household income taken in taxes. While in 1900 less than 10% of family income went on taxes, today over 41% of family income goes to pay tax bills (see chart).



While there are many different reasons for this rise in the tax burden, it is interesting that it has increased roughly in line with the increase in the percentage of total taxation collected by central government.

While not going as far as to suggest that devolving tax raising powers to local government would lower the overall national tax burden, creating tax competition within a self-financing system of local government could certainly provide a check on further increases in the overall burden.

Once local government in the UK was self-funding, national government would raise some 75% of the total tax burden (compared to 92% today), and local government would raise 25% (compared to 8% today). This would mean that, at least for a quarter of the total national tax burden, tax competition between local governments would act as a powerful check against excessive tax increases.

5. Conclusion

Replacing VAT with a system of Local Sales Taxes, set and collected by Town Halls, would make local government in Britain entirely self-financing. A Local Sales Tax, unlike a Local Income Tax, would amount to something far more significant than simply “more tax”. Rather, it would be a genuine devolution of tax-raising powers away from Whitehall to Town Hall.

Once Town Halls possessed the power to raise all of their revenue locally, there would be a revival of local democracy — because the Town Halls really would count. Free from the central controls that the central subsidy places on local government, elected councillors would have far greater freedom to decide for themselves how to deliver key local services. No longer acting as agents of Whitehall, locally elected politicians would be able to stand for election on the basis of local needs and priorities. Not only would a wider range of people enter local politics, but voters would have far greater incentives to vote.

No more centralised decentralisation

More fundamentally, giving Town Halls financial autonomy would have a profound impact on national politics, paving the way for radical, meaningful decentralisation.

Take as an example the proposals made by the Home Secretary David Blunkett to make those who run local police forces more accountable to local residents. Unless Town Halls become self-financing and are then able to allocate local revenue to fund local police forces themselves, most police chiefs will remain dependent on the Home Office, only able to recruit more officers or launch a new anti-crime initiative when they get the say so from the centre. For all the headlines about “elected local sheriffs”, the proposals will remain pointless until there is local control of police budgets.

Up to now, those advocating localism have faced the intractable problem of how to promote devolution from the centre. Using the organs of central government to devolve power runs the risk, paradoxically but all too often, of actually centralising power.

Consider for a moment the Conservatives' proposals to give every parent an education "passport" or voucher. On the face of it, doing so would hand individual families and schools far greater freedom from both the Department for Education and from the Local Education Authority bureaucracies. The danger, however, is that any such voucher scheme would be introduced as a national scheme, run and administered from Whitehall. It is very easy to envisage how Whitehall, long after the current crop of politicians had started to spend more time with their families, would start to attach ever more bureaucratic, interventionist and micro-managerial conditions to the voucher scheme. Instead, the Conservatives should decentralise from the localities, obliging financially independent councils to implement their own versions of the voucher scheme, paid for out of local taxes. Because such a scheme would not be administered by central government directly, it would be far more difficult for central government — whichever party held office — to reverse it.

Whether a Labour politician intent on police accountability, or a Conservative wishing to reform schools, it is not possible to devolve power away from the centre by intervening from the centre. National politicians must instead look to hand over control. And handing over control of local government finances to Town Halls is perhaps the most important power to cede, for once local government becomes, fiscally independent, it is much more able to resist Whitehall trying to micro-manage local service provision.

Yet looking to devolve power from Whitehall to the Town Hall *before* making local government self-financing is to put the cart before the horse. If localism is to be more than just a buzzword, it must be paid for by localising control over the taxes needed to pay for it. There can be no meaningful Town Hall representation without devolving, to the Town Halls, local power over taxation.

Notes

- 1 See the Labour Party's 2001 election manifesto.
- 2 Speech by Charles Kennedy MP to the Social Market Foundation. July 15th, 2003
- 3 'Town Hall' is here used loosely to mean local government authorities.
- 4 For an outline of these proposals, see the Conservative Party's *Trusting People*. October 2003.
- 5 'Whitehall' is here used loosely to mean central-government authorities.
- 6 For an outline of the extent to which Whitehall can micromanage thorough an array of departments, non departmental Public Bodies and quangos, see C-Change's publication *Direct Democracy* chapter 2, or Conservative Party's later publication *Total Politics*, September 2003.
- 7 Of the total tax take of £395b in 2001/02, central government collected 92%.
- 8 Also see *Local Government Grant Distribution, A Comparative International Study*, PWC 1999.
- 9 LGA Yearbook. 2001
- 10 See www.local.dtlr.gov.uk/sectorgr.pdf
- 11 *Council Tax Increases. 2003/04. Why were they so high?* Audit Commission, December 2003
- 12 Institute for Fiscal Studies, 1998
- 13 Impact of Capping on Local Service Provision. Institute for Fiscal Studies. 1998
- 14 Local Government Association Yearbook 2002
- 15 MORI October 1998
- 16 MORI. May 2000
- 17 www.publications.parliament.uk/pa/cm200102/cmselect/cmtlgr/98102.htm
- 18 Mark Nicholson, *No Representation Without Taxation — Reforming Local Government Finance*. Bow Group, 2002
- 19 *Revising the Rating System*, Adam Smith Institute, 1985
- 20 Even then, the costs of collection are likely to be comparatively high (In 1981/81 prices, an estimated £100m and require up to 13,000 additional tax collection employees).
- 21 Estimated by Douglas Mason at 15m people.
- 22 For details of the arguments in favour of the poll tax, see Douglas Mason's *Revising the Rate System*.
- 23 VAT is due on all goods and services with certain exceptions such as public services (e.g. health and education), lotteries and certain goods such as food, newspapers and children's clothes.
- 24 NB: The Local Sales Tax is *not* charged at each stage of the transaction process.
- 25 See Bow Group paper (*op. cit.*).
- 26 A criticism made by Douglas Mason in *Revising the Rating System*.
- 27 From the non-banking sector. Permitting each Town Hall to borrow from the banking sector would perhaps be a step too far, in that it would had over the power to control the money supply to a myriad of Town Halls each pursuing their own agendas.
- 28 Institute for Fiscal Studies, 1995.
- 29 Moreover, it is unclear why "progressive" taxation, which obliges a minority of tax payers to shoulder broadly a disproportionately large burden of tax should be any more fair than a system which ensures the tax burden is shouldered equally as a percentage of household expenditure.
- 30 Note that although certain categories of goods in the UK, such as children's clothes, are zero rated, unlike in certain other members states, they are still subjected to a VAT rating, albeit at a rate of zero.
- 31 For example, by increasing the amount contributed through the UK's GNP contribution, which currently accounts for around half of all EU's "own resources".
- 32 Kenneth Baker, *The Turbulent Years*, 1993, p.117.
- 33 Keith Marsden's — Submission as evidence for the enquiry by the European Policy Forum *Is tax competition harmful*, November 1998