1. Introduction

The committee’s inquiry will receive evidence that relates directly to the Spending Review 2019 and on the fitness for purpose of the system in delivering local public services. An opportunity is taken in this paper however, to make the case for a fundamental change in the nature of local government financing, specifically the tax raising powers that rest with councils. The paper will set out a number of options to enhance the existing local taxation regime drawing on evidence and practice from overseas.

A prolonged period of austerity makes it vital that a less centralised approach to local government finance is taken and that councils are able to replace lost central government financial support with locally raised taxation. Greater freedom in local taxation is necessary not only reduce the centralised nature of government but to enable councils, that have detailed knowledge of local needs, to be able to finance not only service delivery, but also longer-term strategic policy for the development of their localities. Councils have responded to the on-going reductions in their finances in three broad ways (see, Jones, et al, 2015):

1. Reducing service provision or introducing efficiency programmes
2. Use of reserves
3. Service transformation – a costly approach requiring investment before a return is achieved

The capacity and ability of local government to continue on those three paths is being reduced as savings are limited from each of the three approaches.

Thus, the paper explores how new sources of locally controlled and raised taxation can provide for the full fiscal autonomy of English local government.

The next section sets out the political context for explorations of new sources of local government taxation; the third section sets out possible options for alternative taxation regimes for local government drawing on existing practices overseas; and, the final section provides a brief concluding overview.

2. The Centralised Political Context

English local government exists in one of the most centralised political systems (Copus, et al, 2017). Its financial regime reflects that centralisation to such an extent that financial reductions imposed on local government by the centre cannot be easily replaced by councils taking independent action or by using alternative, locally based sources of finance.

The weak constitutional position of local government, its low level of political and governing autonomy and the high degree of central control is responsible for much of the difficulty experienced in responding to current financial uncertainty. In 1986 the report of the Committee of Inquiry into the Conduct of Local Authority Business (Widdicombe) summed up the problem neatly, thus:

*Although local government has origins pre-dating the sovereignty of Parliament, all current local authorities are the statutory creations of parliament and have no independent status or right to exist. The whole system of local government could lawfully be abolished by Act of*
Parliament. Central government is not itself sovereign, and indeed its powers are – or may be – circumscribed by Parliament just as much as those of local government. In practice however central government is drawn from the political party with a majority in Parliament and its de facto political strength is accordingly much greater than that of local government (HMSO, 1986:45, para 3.3)

Given the current state of local government finance and the failure of a centralised system to ensure local government can effectively govern locally or continue to guarantee the provision of public service that are part of a modern society, it is timely to consider how the position described by the Widdicombe Committee can be challenged and revised, at least from a tax raising perspective.

Changing the financial basis of local government is becoming ever more necessary not just because of the reduction in central government support, but because the creation of combined authorities which, given the scale and scope of their operation, will need to be far freer financially than traditional local government has thus far been, if they are to reach their full potential.

In addition, the current strained financial circumstances of local government have already seen the spectre of local government re-organisation raise its head which once again sets county against district councils. Indeed some councils are viewing mergers as a policy response to financial problems. Yet, there is no consistent evidence that indicates that council mergers inevitably lead to reduce costs, financial improvement or enhancements in service quality and efficiency (see, Stewart, 2003, Boyne, 1995, Andrews, et al, 2006, Dollery and Fleming, 2006, Dollery and Byrnes, 2007, Andrews and Boyne, 2012); while the evidence is more consistent in suggesting that council mergers damage the health and quality of local democracy in terms of electoral turn-out, trust in officers and councillors, community cohesion and engagement (Keating, 1995, Ladner, 2002, Laamanen and Haveri, 2003, Kelleher and Lowery, 2004, Baldersheim and Rose, 2010, Denters, et al, 2014). Reorganisation is not the answer to austerity or the pressure on local public services, yet austerity has given a spur to reorganisation rather than to sensible debate about local fiscal autonomy.

Our centralised political culture looks to government to solve problems, consequently local public expenditure, local responsibility for public services and infrastructure and welfare service development become the concern of the centre as government’s can stand or fall by the quality of public service provision. But, local financing systems and expenditure must also be able to reflect local requirements and to provide sustainable and improving public services that reflect specific local values, views and demands. It is therefore necessary to link local government financial sustainability to radical changes to the taxation regime of English local government. Indeed, what is required to ensure the sustainability and viability of local government is not a tinkering with the current regime, but a fundamentally new approach to local taxation.

The sustainability and viability of local government and the public services it provides rests on a bold change in the very nature of the power that should rest with local government to finance its own activities. Indeed local government financing should provide councils with maximum choice and maximum freedom from central control and maximum access to a taxation regime which should draw down powers from central government so as to support on-going financial security and sustainability. Moreover, the only restriction on what can be taxed and what level of taxation could be imposed by local government should rest not on the interests of central government but on the tolerance of local citizens and voters in local elections.

3. Renewing Local Government Taxation
A quick review of taxation regimes for local government overseas provides a starting point for thinking through how the current regime for English local government could change to enhance local government financial sustainability. While the committee is shifting evidence focused on the existing finances of local government and on the spending review it would be useful to inform some of that exploration with possible alternative systems.

Internationally English local government has one of the narrowest and most restricted local taxation regimes and while other countries have a prime source of local taxation they do so with access to other taxation powers to augment what can be generated from that prime source (Gibb and Christie, 2019). The business rates available to English councils cannot be seen as a ‘local’ tax, rather assigned revenue from central government, at least until the future of localising business rates is finalised.

Councils could secure financial freedom by generating tax income from an expanded basket of taxation powers which individually each council would determine whether or not to employ and at what level. The list below provides examples of sources of local taxation that rest with international local government; examples (but by no means exhaustive) of the countries where such local taxation powers (or a form of them) are available are included in the rackets.

- Local Income Tax (Belgium, Canada, Denmark, Finland, Germany, Norway, Sweden, Italy, Sweden, Switzerland)
- Direct tax on Business (Canada, Denmark, Finland, Hungary, Germany, Italy, Japan, Luxemburg, Portugal, U.S)
- Sales tax / Consumption tax (Canada, Brazil, Germany, Hungary, Italy, Japan, Portugal, Spain, various US States,)
- Tax on self-employed (Germany)
- Entertainment tax (Croatia)
- Local property tax (Australia, Belgium, Canada, France, Japan, New Zealand, Spain, Switzerland, The Netherlands, U.S)
- Tax on land (Denmark)
- Tax on patents (transferred to councils in Bulgaria)
- Real estate tax (Poland, Brazil)
- Poll tax (Slovenia)
- Tourist tax (Belgium, Canada, Czech Republic, France, Germany, Hungary, Italy, Spain, Switzerland, The Netherlands (this type of tax is prevalent across Europe)
- Car tax (Spain, Croatia)
- Inheritance and gift tax (Croatia)
• General tax-raising powers, e.g.: dog-tax, passport issuing, sewage tax, revenue from sale of brown-field land for development (Flanders, The Netherlands)

It should be noted that in some cases from the list above, the tax take is shared between local and central government, or local and regional government. Indeed, the Political and Constitutional Reform Committee suggested in its report that the practice in some countries of sharing tax take between central and local government should be emulated in England (TSO, 2013).

The lesson to draw for English local government from the taxes that rest with local government overseas is that it would be wrong to confine and constrain local government to just one source of local taxation. What is required instead is for local government in England to have access to an expansive basket of taxation powers which could be employed differently by different councils across the country. That is: council A’s taxation policy might be to employ a tourist tax and a sales tax; Council B’s taxation policy might be to employ a property tax, an entertainment tax and a corporate tax; and Council C might rely on a property tax alone. The point is that local government should be free to decide itself, with knowledge of its local areas, which tax powers would be best suit its locality. Moreover, councils should be able to offer rebates, reductions and incentives to payment based on their local discretion.

A note needs to be made of tourist tax as the debate about this type of local tax is gaining traction. Tourist taxes are prevalent certainly across Europe, and areas with high levels of tourism should, if they wished, be able to levy a tax on hotel usage and tourist venues for example and used carefully these would have little or any impact on tourism.

To some, such suggestions will create the image of a rapacious and unrelenting taxation of local citizens, but the reality is that such taxes above already exist across the globe and if we base our system on a series of checks and balances resting with local citizens, such as the right to recall councillors or entire councils and the right to demand local referendum to ratify or otherwise, local taxation then we are in a far better position than if a distant central government decides arbitrarily to cap local taxes. It is the knowledge that rest with councils of their local economies and voter tolerance that should be the defining factor in local taxation.

As Copus (2016: 156) suggested:

*Imagine the following scenario: a council has within its area a major international airport with approximately 20 million passengers travelling through it each year. The economic and tourist activity generated by that airport already stimulates the local and regional economy. The council (or councils acting in a conglomerate depending on the location of the airport) decide to levy a £10 tax on every passenger that travels in and out of that airport. It is highly unlikely that any passenger faced with such a charge will decline to travel, so passenger numbers will remain stable and only fluctuate with other market-driven factors. In addition, the council levies a small tourist tax which is collected and paid by tourists at any hotel at which they stay. Given the size of the main international airports in England, this power alone might see some councils secure almost complete financial freedom overnight.*

Local taxation powers are firmly linked to notions of localism and devolution and local government being an autonomous governing entity with the power to raise finances to protect and provide vital public services as well as to finance long-term strategic policy. In addition, enhanced taxation
powers provide for desperately needed flexibility to the current regime. Not only should councils decide the level of local taxation but also which taxes to employ. So, those areas with thriving tourist industries, for example, could levy a tourist tax, while more urban areas would employ a local corporation tax, alongside any other taxes from a large basket of taxation powers.

As well as taxation powers, local government sustainability can be enhanced through enabling it to enter into commercial operations, joint-ventures and joint-working with other authorities or partners, loan activities and financial market activities and other income generating activities, far more freely than is currently the case. While these new financial powers would need to be regulated generally, that stands in stark distinction from central government giving permission for such activities or controlling what local government can do with the income it generates from any source.

4. Conclusion

The paper has presented broad ideas and principles to address the issue of the unnecessarily narrow source of local taxation which rests with English local government and which hinders its ability to respond to reductions in government financing and general financial pressures. A wide range of taxation powers rest with local government in an international setting and provide lessons on which to draw to be able to expand the financial base of English local government.

Localism, devolution and diluting the centralised nature of government rely on providing local government with a stable, buoyant and flexible range of taxation powers. It also rests on councils being able to select, from that basket of taxation powers, those taxation methods which best suit their localities and their own policy preferences. A system where different councils will employ different taxes is to be preferred over one which rests on a ‘one size fits all’ approach. The long-term sustainability of local government and the public services which it provides and oversees rests on a fundamental rethink of the role, purpose and powers of local government and of the taxation system which sustains its ability to meet local needs.

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References


