Written evidence submitted by Winchester City Council [FSR 021]

In forming our response we have considered advice from Pixel Financial advisors who have drafted their own response which draws evidence from a recent report published by the IFS:

The Institute of Fiscal Studies (IFS) has published a report on the options for expanding local taxation. Local government in England already raises local taxation (council tax, business rates) that funds 81% of the expenditure that it controls. However, these taxation streams are not buoyant and will not increase sufficiently rapidly to “keep pace with rising costs and demands for services in the future”. It is therefore “highly likely” that “either funding from central government grants will have to be increased … or new sources of locally raised revenues will have to be found, such as devolved taxes”. Tax devolution is “not a panacea for [local authorities’] funding issues”: ultimately these will only be resolved by “either tax increases (whether at a local or national level) or lower expectations of what councils can provide”.

https://www.ifs.org.uk/publications/13991

The IFS concludes that these devolved or assigned taxation streams would be viable:

- **Income tax** is the “most promising candidate for partial devolution”. The IFS calculates that 3p on all income tax bands would raise £19bn and 3p on just the basic rate would raise £12bn. There is a preference for devolving "a small supplemental local income tax on top of national income tax": this would give authorities the benefit of the “mechanical” increase in rate without the “behavioural” downside of tax mobility (of high-income taxpayers). A flat rate could be applied to either all tax bands or just the basic rate. Usually devolved powers would be restricted so that tax rates can only be cut or increased for those with higher incomes if they are cut or decreased for everyone. This is how local income tax works in much of Scandinavia and how it used to work in Scotland until 2017-18. Large-scale equalisation would be required even for a limited flat-rate approach because the range of income is so great between authorities.

- Authorities could be given **greater control over council tax**: (a) additional powers over reliefs, discounts and exemptions (particularly single person discounts); (b) changing council tax relativities or adding new bands; or (c) powers for local revaluations. The Scottish Government increased tax rates on Band E to H properties from 3:1 to 3.65:1. The same increase in England would raise an additional £1bn. Powers to revalue would be more problematic and would cause significant difficulties for equalisation. Overall, the IFS supports the concept of giving authorities greater control but conclude that it would be better to reform and revalue the current system.

- **Tourist accommodation tax** is being considered by some authorities. The IFS is supportive but stresses that it is only suitable for some cities and the income is very unevenly distributed. It estimates that £5 per night for all
tourist accommodation would raise £2.1bn: not insignificant but not enough to solve the sector’s funding shortfall. Such a tax could be widened to short-stay lets, such as AirBnB. There is a strong case for a tourist tax because it creates “negative externalities”, i.e. costs for local authorities, such as more street cleansing or litter collection. Many other European cities already have a tourist tax (in fact, the UK is one of only 9 EU-28 countries without such a tax).

We would draw specific attention to the following four headings:

1) Localism
   a. Business Rates Retention – we would support partial not full resets and longer rather than shorter reset periods in order to recognise the importance of longer term planning which is critical to supporting and growing businesses. This is particularly important in Winchester where we have a number of regeneration schemes in their initial stages, with business rates retention an important aspect of their development.
   b. New Homes Bonus – growth in housing must be recognised and rewarded in order to continue to meet government targets and our local plan. We need urgent confirmation of a replacement to the current scheme or continuation of the existing new homes bonus.
   c. Tourism Tax – visitor growth is vital to support city centres & retail, the right infrastructure and maintenance is needed to support this growth. A tourism tax would provide important funding to help support this.
   d. Council Tax - referendum limits have been raised for other authorities (adult social care / police) but districts have not been provided with any additional flexibility. There should be flexibility to keep within specified limits over a period of years rather than set limits on each individual year (for example we have frozen our district tax in 19/20 but this should not reduce our cumulative ability to increase in future years, if required). There should also be consideration of existing tax levels with additional flexibility up to say +£10 for lower taxing authorities. Without this flexibility the system is set to force authorities to increase by the maximum amount every year.
   e. Review of existing government set discounts & reliefs – we would support a review of existing discounts and reliefs relating to council tax and business rates in order to give greater flexibility for local authorities to meet local requirements. For example Single Persons Council Tax Discount and NNDR Mandatory Relief are very significant relief’s which provide no flexibility for local authorities to respond to local conditions.

2) Medium Term Planning / Increased Certainty of funding
   a. The uncertainty about funding in 2020-21 is unprecedented, and there is, as a result, considerable nervousness about forecasting funding in 2020-21 and beyond. To help authorities deal with this uncertainty, our suggestion would be that the government announces before this Summer how a damping or transitional regime would work in 2020-21. Ideally such a regime would cover the widest range of funding streams, including business rates growth and New Homes Bonus. Early clarity about damping would be an enormous help.
   b. We do not support penalising authorities for generating income (e.g. car parking income).
c. We support reasonable damping periods to ensure there are no sudden significant drops in funding when a new settlement period commences

3) **Greater support/funding for Regeneration**
   a. Greater government funding to support major regeneration schemes (CWR / Station Approach). Many of these schemes do not provide a commercial return and there is great importance to ensure that public spaces are provided, particularly in historic town centres.

4) **New Burdens**
   a. Environmental services – additional funding must be provided in full for new/enhanced services (e.g. weekly food waste collection). With the already immense pressures on local government finances it would simply not be sustainable to just move around the same funding pot and/or produce unrealistic savings assumptions (e.g. increases in glass income which could not be achieved).

*April 2019*