



meeting      CORPORATE STRATEGY AND COORDINATION SELECT COMMITTEE

date              1 SEPTEMBER 2004                      agenda item number

## **REPORT OF THE CHAIR OF THE CORPORATE STRATEGY AND COORDINATION SELECT COMMITTEE**

### **BALANCE OF FUNDING REVIEW – REFORM OF THE COUNCIL TAX SYSTEM**

#### **Purpose of the Report**

1. The purpose of this report is to inform Members of the publication of the Balance of Funding Review and the findings of this Committee's own consultation on alternative options. Vernon Coaker, MP for Gedling, will be attending the meeting so that he can take back the views of the Nottinghamshire public on Council Tax reform to Government.

#### **Background**

2. At the last meeting of this Committee on 21 June 2004, the Committee considered the report of the focus groups which were held to obtain reactions to the various options for reforming the current Council Tax system. The Committee also received an update on the latest responses to the various options from the Nottinghamshire public as sent in by letter and e-mail, and given by telephone to the County Council's call-centre. A summary of the findings is attached as Appendix A.

#### **Balance of Funding Review**

3. On 20 July 2004, the Balance of Funding Review was presented to Government for consideration. A copy of the summary, conclusions and principles is attached as Appendix B. It concluded that Council Tax should be retained but reformed; and that there were strong arguments for shifting the balance of funding towards more local funding, but only if the methods for doing this were both feasible and desirable.

4. Following this report, the Government has announced an independent inquiry into Council Tax reform, which will be informed by the Balance of Funding report. The inquiry will be led by Sir Michael Lyons, who was once Chief Executive of Nottinghamshire County Council, and will report to the Deputy Prime Minister and the Chancellor by the end of 2005. The inquiry will:
  - Make recommendations for the reform of council tax, taking into account the revaluation, in 2007, of domestic property.
  - Assess the case for giving local authorities more flexibility to raise additional revenue (meaning more money would be raised locally, and less centrally).
  - Analyse the options for shifting the balance of funding, including local income tax, reform of business rates and other possible local taxes and charges.
  - Consider the implications for the financing of possible Elected Regional Assemblies.
  - Consider any implications that its recommendations have for other parts of the United Kingdom.
5. The Local Government Minister, Nick Raynsford has summarised the current Government position on reform of Council Tax as follows:

"We are developing a new 10-year vision for local government. We want local government to be more effective and more accountable. A fair and sustainable funding system is crucial for this. We are well aware of the issues with the current system of local government funding and the arguments for change. That is why we commissioned the Balance of Funding Review to look into them. And that is why...we are announcing the next stage - an independent inquiry that will build on the Balance of Funding Review's findings and take matters further forward in detail."

#### **Vernon Coaker MP**

6. Vernon Coaker MP has been invited to attend the meeting so that the Committee can pass on the findings of its research of the Nottinghamshire public's views on Council Tax reform to Government. It is interesting to note that the balance of Funding Review favours retaining Council Tax whereas Local Income Tax has most support among the Nottinghamshire public.

## **RECOMMENDATIONS**

7. It is recommended that the Committee:

- (i) discusses the reform of Council Tax with Vernon Coaker MP; and
- (ii) considers how it wants to be involved with this debate in the future.

**Cllr Darrell Pulk**

**Chair of the Corporate Strategy and Coordination Select Committee**

**NOTTINGHAMSHIRE COUNTY COUNCIL**  
**CORPORATE STRATEGY AND COORDINATION SELECT COMMITTEE**  
**JULY 2004**

**SUMMARY OF KEY FINDINGS FROM THE REVIEW OF ALTERNATIVES  
TO THE COUNCIL TAX**

**Introduction**

1. This report contains the findings of a review of the proposed reform of the Council Tax system as part of the Government's balance of funding review. It was conducted by Nottinghamshire County Council's Corporate Strategy and Coordination Select Committee between May and July 2004. It is hoped that our findings will be taken into consideration before the Government brings forward any legislation to reform the current system of local government finance.

***Background***

2. The Committee looked at the options the Government is considering to reform the current method of raising finance for local councils. Four options were examined:
  - Local Income Tax
  - Hybrid of Local Income Tax and Council Tax
  - Increasing VAT
  - Updating Council Tax
3. The Committee agreed that it should put these options to the public to get their views. A press release was sent out to all Nottinghamshire media. In particular, it received extensive coverage in the Nottingham Evening Post over a two-day period with the public given the opportunity to share their views on the options by telephone, e-mail or letter. There was also a dedicated feature on BBC Radio Nottingham as well as coverage in other newspapers such as The Chad. A summary of these responses is attached as Appendix A.

**Focus Groups**

4. The Committee also agreed that three focus groups should be held across the county to gather public perceptions on the alternatives to the current Council Tax system. 3 group discussions (1½ hours in length each) were held over 1 & 2 June in West Bridgford, Ollerton and Mansfield. A full report of the focus groups was circulated with the papers for the Corporate Strategy Committee on 21 June 2004.

## **SUMMARY OF PUBLIC RESPONSES TO ALTERNATIVES TO COUNCIL TAX CONSULTATION**

### **Acknowledgements**

1. The Committee would like to thank the Nottinghamshire public for participating in focus groups, contacting our call centre, sending in e-mails and writing letters in response to the coverage of alternative Council Tax options in the local press and on radio. It was interesting to note that in addition to supporting alternative options to the current system, many members of the public have very detailed options for funding local councils.

### **Background**

2. Since the introduction of the Community Charge in 1990/91, Business Rates have been taken out of local authority control. In a situation where only 26% of local authority funding is determined locally, there is no clear relationship between increases in spending and Council Tax. The Local Government Association has campaigned vigorously for a change in this situation, due to the reduction in local accountability and the effects of gearing on Council Tax rises.
3. Over the years, as council tax bills have risen higher than levels of inflation, the general public have increasingly expressed concern about the lack of relationship between council tax and people's ability to pay. This concern has led to a number of calls from pressure groups for a change to a local income tax.
4. The least well off pensioners are entitled to financial assistance with their Council Tax bills. Many pensioners do not claim these benefits or are not entitled to benefits because of the amount of savings they hold. Often the increase in pensions is barely sufficient to cover Council Tax increases. Those pensioners with savings are reluctant to use their children's inheritance or move to a smaller house. Over the last two years the pensioners lobby has become more vociferous at a national level. Locally, a group of pensioners came to talk with the Leader at County Hall early this year and have also visited Nottingham City Council.
5. In the 2004 Budget the government announced an additional payment of £100 to pensioners to help alleviate the effect of council tax increases this year. In addition the government provided local authorities with an extra £340 million grant to help keep down Council Tax increases, but this may be for 2004/05 only.

### **Consultees**

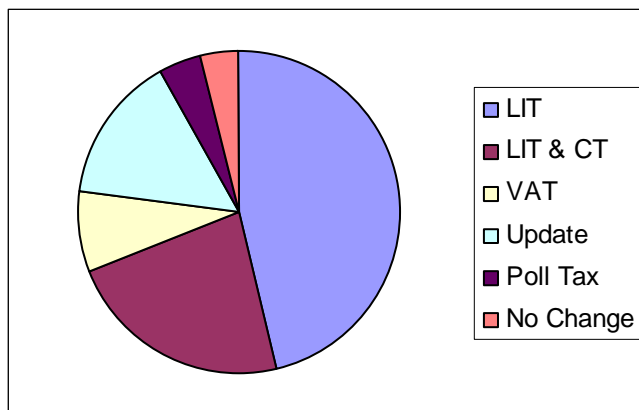
6. Comments from the public were received by telephone at the authority's call centre, by post, by e-mail, and as a result of a feature on BBC Radio Nottingham. A summary of the key findings follows:

### Key Principles

7. Looking at the range of comments received on alternatives to the current Council Tax system, it is possible to draw some broad conclusions:
- There is almost unanimous agreement that the current levels of Council Tax are too high and that the system needs to be changed.
  - There is very little support for retaining the current Council Tax system.
  - There is a reasonable amount of support for the principle that everyone should contribute something towards the cost of local services.
  - Retired people in particular believe that the level of Council Tax increases significantly outstrip the rises in their pensions and that some form of reduction for retired people needs to be introduced.

### The Options

8. Although not a scientific guide, the responses to the four alternatives have been assessed and the results are shown in the following pie chart:



Local Income Tax – 46%

Mix of Local Income Tax and Council Tax – 23%

Update Current System – 15%

Additional VAT – 8%

Poll Tax – 4%

No Change – 4%

### **Local Income Tax (LIT)**

9. Although only using a self-selecting sample, the preferred option of the public is for Local Income Tax. Some of those in favour of LIT see it as a fairer tax by linking it to people's income. They argue that such a tax would better reflect people's ability to pay.
10. It would also cover all wage earners (who pay Income Tax) in a household so the base of those paying for local services would widen in multi-income households, and it would also include wage earners who do not currently own a property.
11. Concerns about LIT centred on the actual amount it would add to Income Tax and that this might make Income Tax levels unacceptable. Also some people felt that the burden of LIT might deter people from seeking paid employment within the labour market.
12. A number of people responding were critical of the amount it actually costs to collect Council Tax currently. Several argued that an advantage of collecting income tax through the Inland Revenue would minimise the bureaucracy involved and hence lower overhead costs.

### **Mix of Local Income Tax and Council Tax**

13. This is the second most popular option among those expressing an opinion. People supporting this option felt that it was reasonable to maintain a tax based on the size of property whilst adding LIT would widen the base of people paying by including additional wage earners in a household.
14. The key argument with this option would centre on what split was proposed between the two elements. As we have seen, there are clearly many different views. If it went for this option, the Government should consider further detailed consultation on the percentages of LIT and property tax to be adopted.
15. In respect of a property tax, some see the size of property as a way of differentiating between people's wealth whilst others argue that people's income does not necessarily correlate with the size of house they have. Several people saw the cost of collecting two different systems as a major drawback with this option.

### **Value Added Tax**

16. Raising money locally through additional VAT has not received significant public support. Those that have expressed support for such a system see it being perceived as fair as they argue that people have

a choice as to what they buy. However, others have stated that people have to buy certain goods so they would have no other choice than to pay the additional VAT.

### **Other Options**

17. Among the other options put forward by one or a handful of people were:

- No Change – keep the current Council Tax system.
- Community Charge (Poll Tax) – bring this back as it was based on the principle that most people contribute something to local services.
- Additional Business Rate – make companies pay more to fund local services.



