



Local Government Finance - Revenue Reform

LGA Local Government Finance Conference

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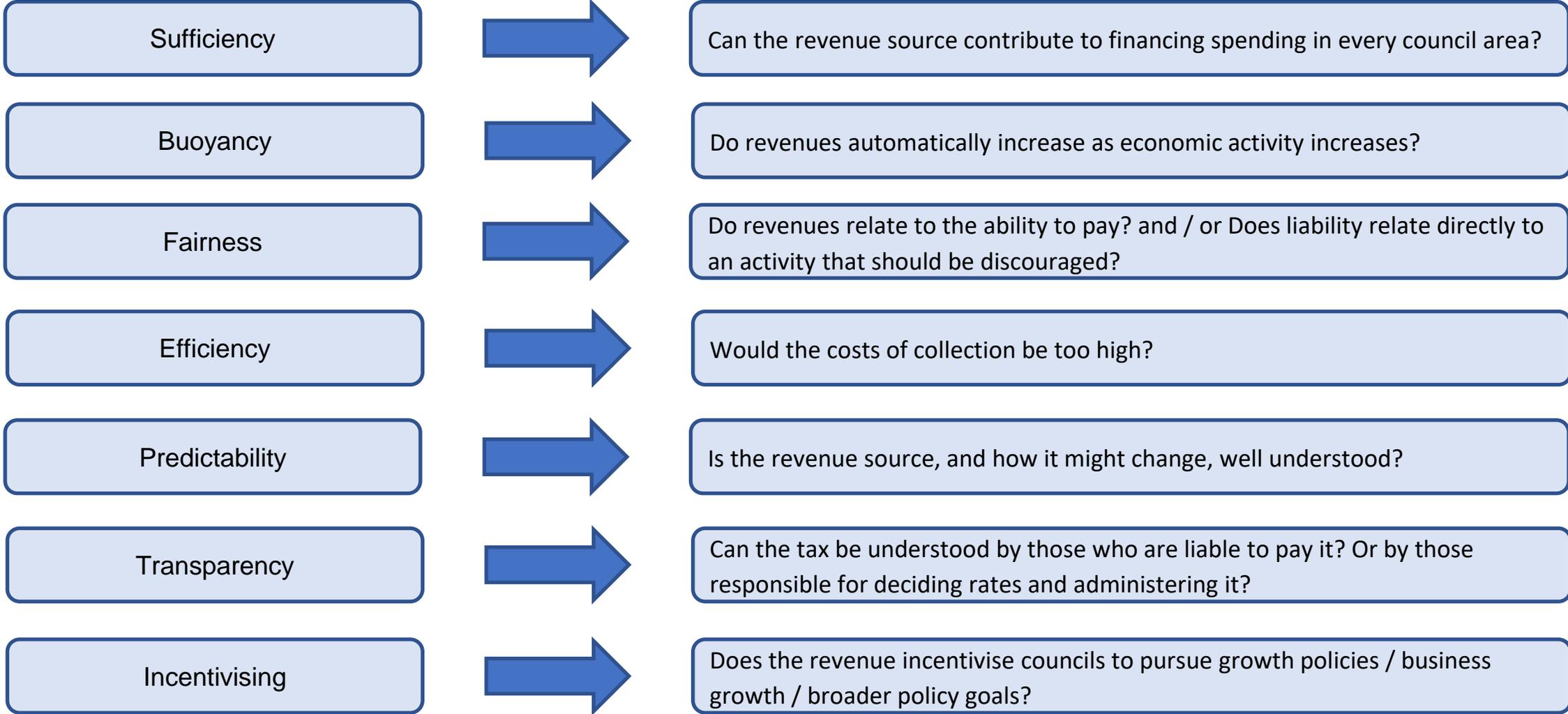
Background and context

Despite the Spending Review announcements, there are four significant issues with local government revenue financing that remain unresolved:

- I. Adequately funding councils to deliver services to an acceptable standard.
- II. Making the UK taxation system fairer for those who pay taxes.
- III. Giving councils more tools to encourage local growth.
- IV. Enabling councils to deliver policies that have a wider societal benefit.

This presentation looks at the options for local government revenue reform, judging the options for reform against a common criteria (devised by the LGA).

The LGA's principles for local government revenues



What our research looked

- The current system (and a reformed current system).
- Devolved national taxes (assigned or control).
- New local taxes.

The current system (with reform)

- Revenues tend to be constrained by central Government, which leads to restricted buoyancy and issues with fairness and transparency.
- Suggested reforms to council tax and business rates tend to focus on the improving the perceived unfairness of the current system.

	Sufficiency	Buoyancy	Fairness	Efficiency	Predictability	Transparency	Incentivising
Council tax (current)	✓	✗	▬▬	✓	✓	▬▬	✗
Council tax (reformed)	✓	✗	✓	✓	✓	✓	✓
Biz rates	✓	▬▬	✗	✓	✓	▬▬	▬▬
Biz rates reformed	✓	▬▬	▬▬	✓	✓	✓	✓
WPL	✓	✗	▬▬	✓	✓	✓	✓
Road user charging	✓	✗	▬▬	✓	✓	✓	✓

Devolved national taxes

- Tend to be more buoyant and greater perceived fairness than current local government revenues.
- But some issues related to VED and Inheritance Tax.

	Sufficiency	Buoyancy	Fairness	Efficiency	Predictability	Transparency	Incentivising
HSCL	✓	✓	▬ ▬	✓	✓	✓	✗
Stamp Duty	✓	✓	✓	✓	▬ ▬	✓	✗
Income Tax	✓	✓	✓	✓	✓	✓	✓
VED	✓	✗	▬ ▬ ▬	▬ ▬ ▬	✓	✓	▬ ▬
Inheritance Tax	✓	▬ ▬	▬ ▬ ▬	▬ ▬ ▬	✓	✓	✗

New Local Taxes

- Tend to have lots of merits – because they are suggested in response to some of the problems highlighted by the current tax system.
- But because they are new, there are potential issues around predictability and transparency.

	Sufficiency	Buoyancy	Fairness	Efficiency	Predictability	Transparency	Incentivising
Proportional Property Tax	✓	✓	✓	✓	✓	✓	✗
A Land Value Tax	✓	✓	✓	✓	✓	✓	✓
A payroll tax	✓	✓	✓	✓	✓	✓	✓
Sales levy (inc. E-Commerce)	✓	✓	✓	✓	✓	✓	✓
Tourist Levy	✓	✓	✓	✓	✓	✓	✓
A Single Property Tax	✓	✓	✓	✓	✓	✓	✓

Conclusions (1)

- **Reform depends on the issue to be resolved** – i.e. service standards or local growth
- **Reform of the current system will go some way to addressing the issues with local government revenues** – changes to business rates and council tax can make the tax system fairer, for instance.

Conclusions (2)

- **Being clear on what local government is “for” will guide which reforms are most necessary** – reforms to enable councils to deliver growth will be different to reforms that enable councils to deliver net zero.
- **There are some options for local revenue reform that seem to have little merit** – there does not seem to be much merit in devolving VED and Inheritance Tax.
- **...REFORM IS NOT EASY!**