Department for Communities and Local Government

Local Government Association

Meeting of Technical Working Group on Needs & Redistribution

Title: **Needs & Redistribution Technical Working Group**

Paper: **NR TWG 16/12 – Taking Account of Differences In Ability to Raise Council Tax Income**

Date: **Thursday 4 August 2016 – (12:30pm)**

Venue**:** **Smith Square 3 & 4, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ**

Report on behalf of the North East Combined Authority and ANEC

1. So far the working group has focused mainly on issues relating to the assessment of spending needs. A key issue in the development of a Fair Funding system is also the ability of councils to raise income from local taxes, including Council Tax as well as Business Rate Income.

2. The current consultation paper focuses on the key elements of the new Business Rate system, but does set out how differences in council tax bases will be addressed.

3. The purpose of this report is to raise the issue of how differences in the ability of councils to raise income from council tax will be addressed under the new funding system. It can be considered in more detail as part of the work programme of this group, with issues and conclusions raised with the Steering Group in due course.

4. The attached paper provides background information about the issue. It has been raised previous by councils and representative bodies, including the Association of North East Councils (ANEC) and the North East Combined Authority (NECA), as a cause of unfairness within the current system. A copy of that paper had been submitted to DCLG and HMT as part of NECA Devolution Deal, which highlighted the need to introduce a Fairer Funding system.

5. The new system will need to recognize differences in both needs and resources, including the different ability of councils to raise income from council tax as well as business rates. Resource equalization had been a key principle under previous grant systems and should apply equally to council tax as to business rates.

6. There are important points of principle to discuss as well as different options for recognizing differences in the ability to raise money from local taxation.

7. The ability to raise income from council tax can vary significantly between local authorities, due to a range of factors, which councils have little or no influence over, including –
   a) The design of the council tax system, bandings etc;
   b) Property valuations – dating back to 1991;
   c) The mix of low or high properties in an area - bands A to H
   d) The mix of exemptions and discounts, which can vary significantly from areas to area, for example in the case of Student Exemptions; and
   e) The number of people on low incomes or pensioners.

8. The level of Council Tax income that is raised by councils currently, which is reflected in their spending power, is a combination of their underlying taxbase, and local decisions that councils have made in the past about the level of their band D council tax and the local council tax support schemes that they have decided to implement.

9. Historically, council tax resource equalization tended to take into account the underlying differences in council tax base, by assuming a standard council tax level. This was done to remove the influence of local decisions on the level of grant that councils would receive, which was seen as an important principle.

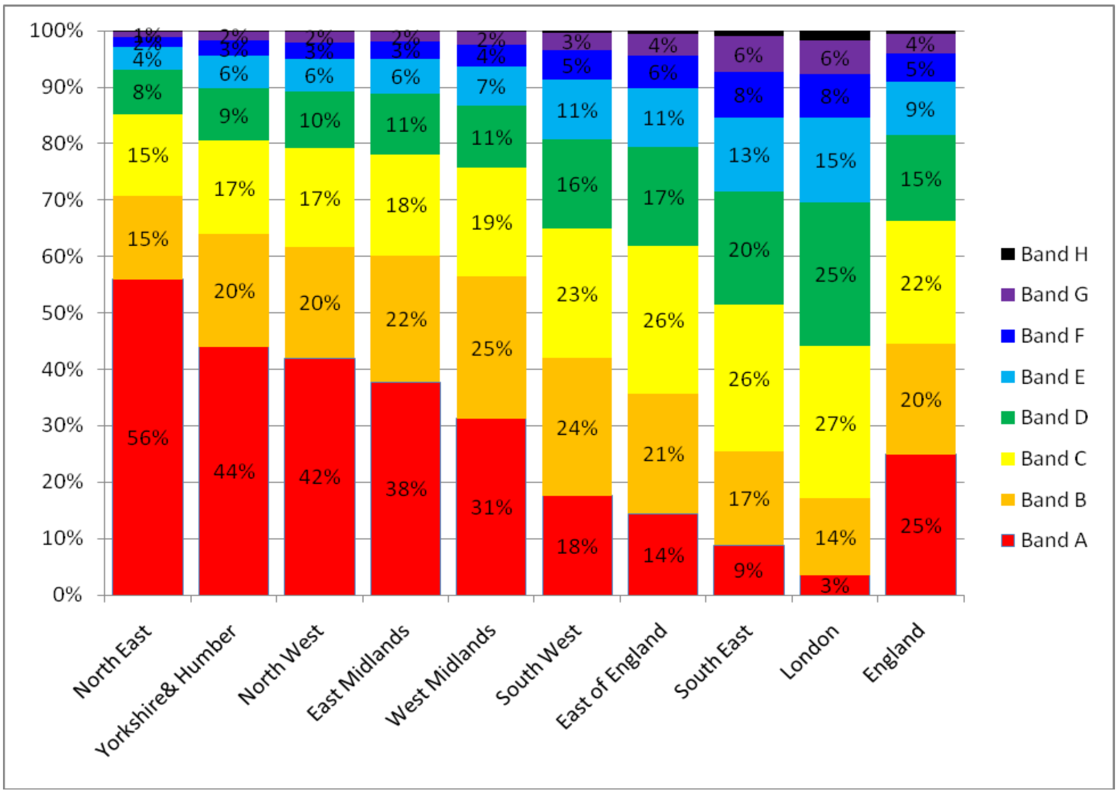
10. The working group is requested to receive this report, consider and comment on the issues raised; reflect this issue in the future work programme of the group and in future reports to the steering group.

Paul Woods
CFO North East Combined Authority

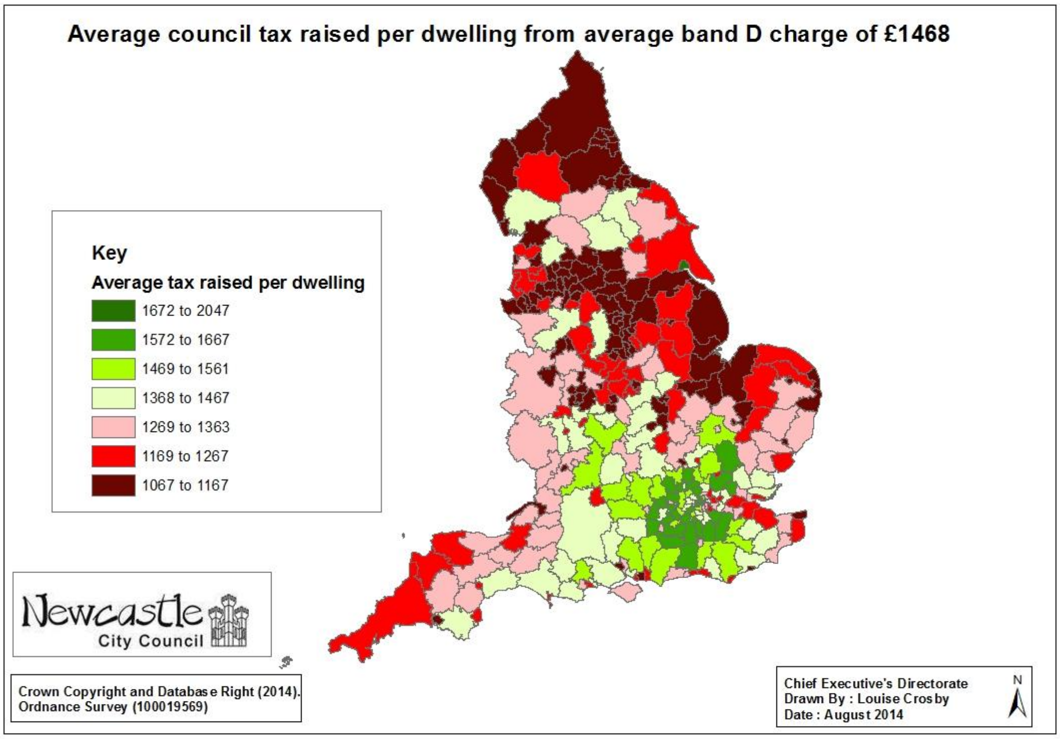
Paper for Business Rates Steering Group
Recognising the Different Opportunities to Raise Income from Council Tax

1.1 A key principle in the grant system since the introduction of council tax in 1993/94 by the Conservative Government at that time has been a grant adjustment to equalise for differences in council tax base, to put councils on a level footing to provide services. This recognised the issues relating to the design of the council tax system and the differences in property values around the country. The adjustment also provided compensation for councils with above average numbers of student council tax exemptions.

1.2 The following chart highlights the significant regional differences in the mix of properties in the various council tax bands A to H. The Northern regions have the highest proportions of properties in Band A, with the North East having more than 50% of properties in Band A.



1.3 This results in very significant differences in the income that can be raised by individual councils. The following heatmap shows the amount of income per dwelling that can be raised if all areas charged a standard Band D council tax of £1,468.

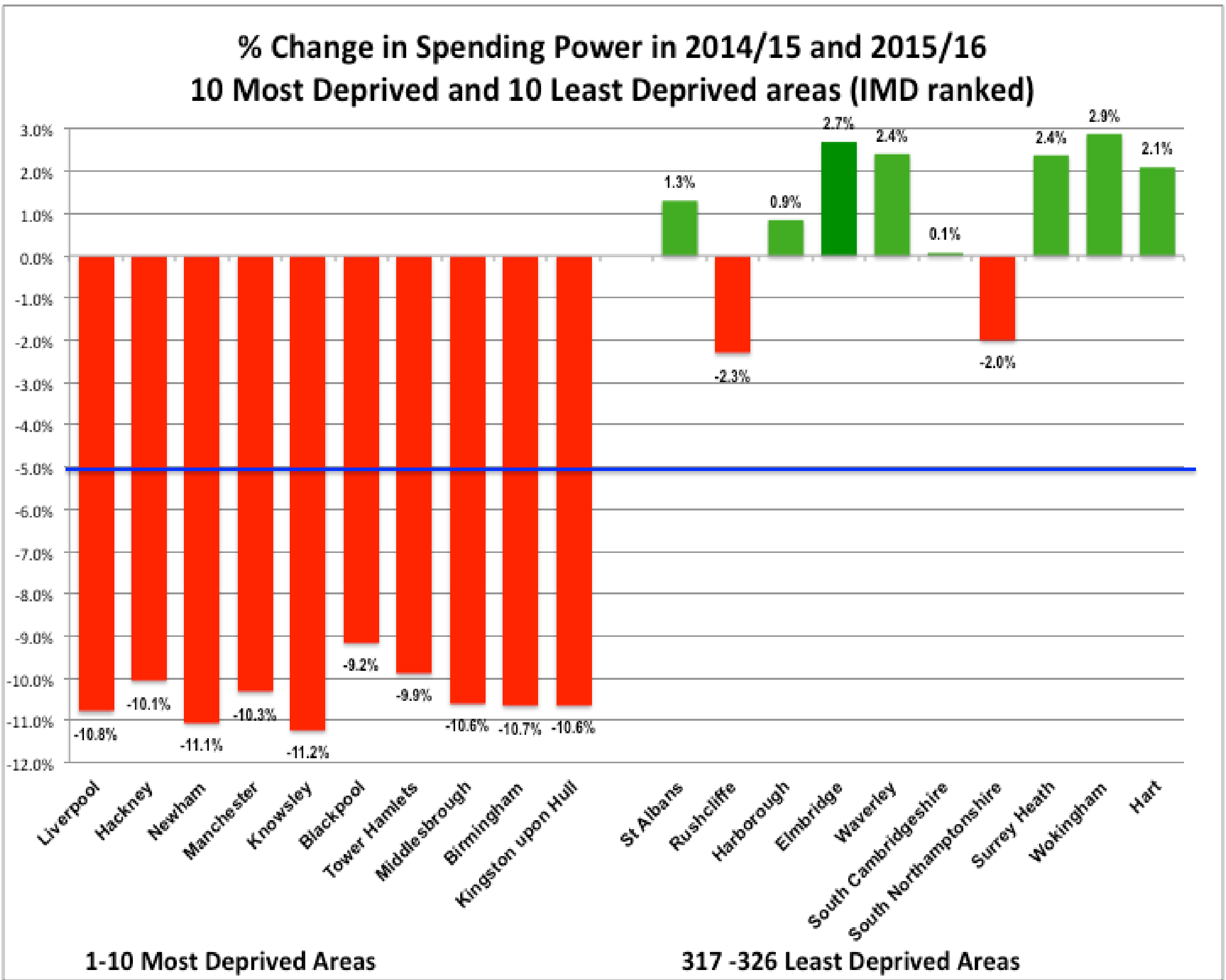


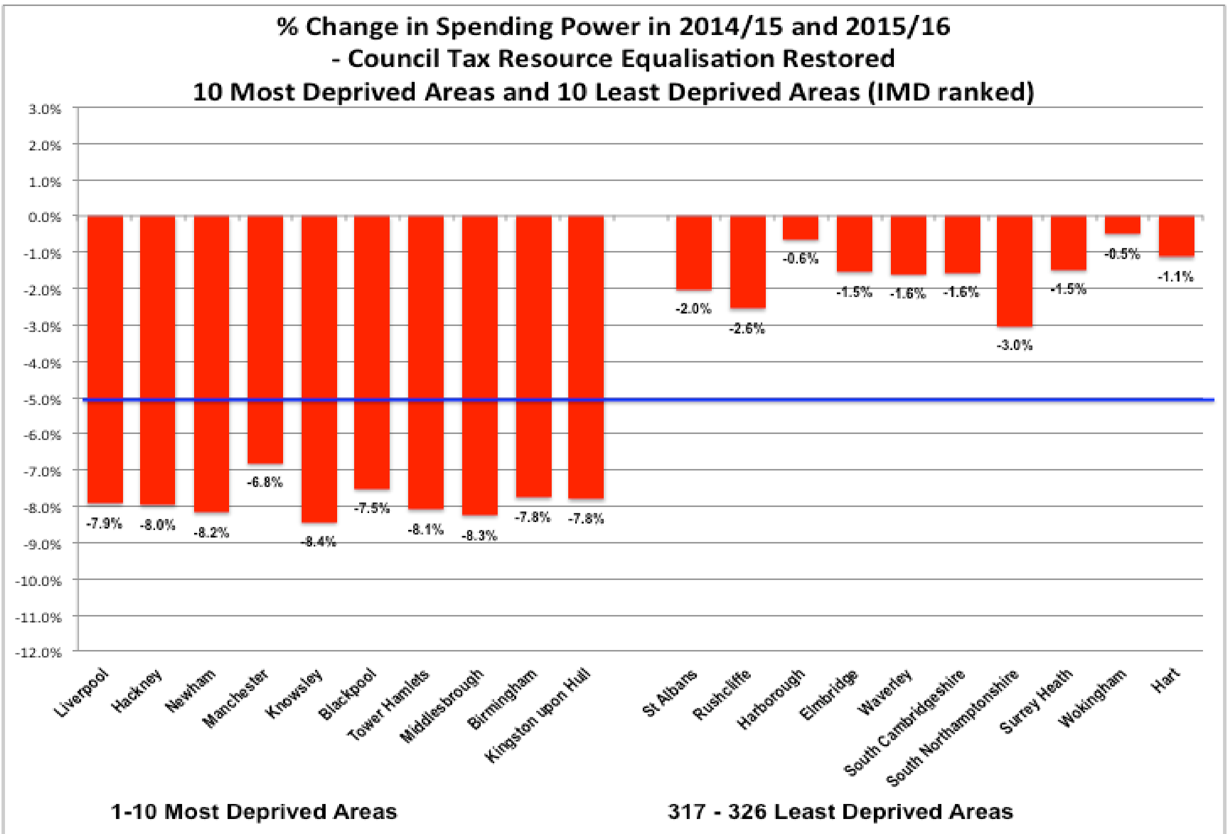
Figures reflect council tax base and national average council tax levels for 2014/15.

1.4 The importance of a resource equalisation was recognised and visibly built into the new localized Business Rate Retention arrangements to reflect differences in business rate income through top ups an tarriffs. However, at the same time the visibility of the council tax resource equalisation adjustment and council tax benefit support funding was lost as it was rolled into the main Revenue Support Grant blocks.

1.5 The council tax adjustment included in Revenue Support Grant in 2013/14 amounted to £3.80billion and the council tax benefit funding from DWP included in Revenue Support Grant was £1.98billion. As part of Revenue Support Grant these two important adjustments, which recognize differences in ability to raise council tax income are being cut each year and will be cut completely as RSG is ended.

1.6 This disadvantages poorer councils with low taxbases and larger numbers of people on low incomes, single people and students who pay less or no council tax due to national exemptions. It is one of the main reasons why disproportionate cuts in spending power have occurred and will continue to occur. It was the main reason why the wealthiest /least deprived areas of the country had an increase in their spending power in recent years. This is highlighted in the following charts which show the change in spending power in 2014/15 and 2015/16 of the 10 most deprived areas and the 10 least deprived areas. The chart on the left show the actual figures and the chart on the right shows what would have happened if council tax resource equalization had been protected.


% Change in Spending Power in 2014/15 and 2015/16
10 Most Deprived and 10 Least Deprived areas (IMD ranked)
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
-5.0%
-6.0%
-7.0%
-8.0%
-9.0%
-10.0%
-11.0%
-12.0%
-10.8%
-10.1%
-11.1%
-10.3%
-11.2%
-9.2%
-9.9%
-10.6%
-10.7%
-10.6%
1.3%
-2.3%
0.9%
2.7%
2.4%
0.1%
-2.0%
2.4%
2.9%
2.1%
Liverpool
Hackney
Newham
Manchester
Knowsley
Blackpool
Tower Hamlets
Middlesbrough
Birmingham
Kingston upon Hull
St Albans
Rushcliffe
Harborough
Elmbridge
Waverley
South Cambridgeshire
South Northamptonshire
Surrey Heath
Wokingham
Hart
1-10 Most Deprived Areas
317 -326 Least Deprived Areas


% Change in Spending Power in 2014/15 and 2015/16
- Council Tax Resource Equalisation Restored
10 Most Deprived Areas and 10 Least Deprived Areas (IMD ranked)
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
-5.0%
-6.0%
-7.0%
-8.0%
-9.0%
-10.0%
-11.0%
-12.0%
-7.9%
-8.0%
-8.2%
-6.8%
-8.4%
-7.5%
-8.1%
-8.3%
-7.8%
-7.8%
-2.0%
-2.6%
-0.6%
-1.5%
-1.6%
-1.6%
-3.0%
-1.5%
-0.5%
-1.1%
Liverpool
Hackney
Newham
Manchester
Knowsley
Blackpool
Tower Hamlets
Middlesbrough
Birmingham
Kingston upon Hull
St Albans
Rushcliffe
Harborough
Elmbridge
Waverley
South Cambridgeshire
South Northamptonshire
Surrey Heath
Wokingham
Hart
1-10 Most Deprived Areas
317 - 326 Least Deprived Areas

1.7 It is important to recognize the inherent different ability to raise money from both council tax and business rates, while still giving incentives to achieve growth.

1.8 This could be achieved by creating a top up arrangement which recognizes differenced in ability to raise money from both business rates and council tax and includes funding relating to council tax benefit/support that was transferred from DWP into Revenue Support Grant.