LOCAL GOVERNMENT FINANCE: THE 1990 REFORMS

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Preface

This Commentary forms part of a programme of research at the Institute for Fiscal Studies supported by the Institute of Revenues, Rating and Valuation. Its preparation has been aided not only by the financial resources provided by the IRRV, but also by the advice and detailed comment provided by a joint IFS/IRRV steering group. It presents, in Chapter 2, the results of a detailed survey of local authority administration of the community charge, based on a questionnaire sent by the IRRV to local authorities' Principal Finance Officers. We are grateful to the members and officers of the IRRV, especially Colin Farrington and Moira Lee, for their assistance and support, and to all those who completed the questionnaire for the time and effort they devoted to it at a time of many other pressures.

We acknowledge the help of a number of IFS colleagues, who contributed in various ways to this study. We are, in particular, grateful to Paul Johnson, Graham Stark and Steven Webb who provided us with estimates of the distributional effects of the community charge, based on the IFS Tax and Benefit model, and to Chantal Crevel – Robinson who prepared the manuscript for publication. We are also grateful to Dorothea Schutz for reading parts of the report and making a number of suggestions for improvement.

The views expressed in this Commentary are the responsibility of the authors, and not necessarily those of the IRRV, nor of the IFS which has no corporate views.

Contents

Chapter 1

INTRODUCTION

This year the financial arrangements for local government in England and Wales have undergone the most substantial restructuring in decades. The two main features of the reforms were set out in the 1986 Green Paper "Paying for Local Government', and are being introduced under provisions of the 1988 Local Government Finance Act.

Firstly, the domestic rates paid by each household are being replaced by a flat rate poll tax on adults called the community charge. Combined with the implementation of the provisions in the 1986 Social Security Act which places an upper limit of 80 per cent on local tax rebates this change means that nearly all adults[1] will for the first time be individually liable for some level of local taxation.

The second major change is that local authorities no longer have control over the level of rates on businesses and other non-domestic properties. From this year a uniform business tax rate has been set by central government. Non-domestic rateable values have, at the same time, been reassessed, replacing the existing rateable values which were based on property values in the early 1970s. The revenues from the new uniform business rate will be distributed to each local authority on the basis of adult population.

At the same time as these two major reforms to local taxation are taking place, other important changes are being introduced to local authority finances. These include a change to the way central government grant is distributed between local authorities, and major changes to the budgetary arrangements for local authority housing. In Inner London, moreover, boroughs have, from 1 April 1990, taken over financial responsibility for education from the former Inner London Education Authority. Some of these other changes also have major implications for local authority taxation levels.

In this Commentary we describe in detail the reforms taking place to local authority finances this year, and analyse their effects on local authorities and local taxpayers. The study includes the results of a major survey, undertaken by the Institute of Revenues, Rating and Valuation, of local authorities' experiences in introducing the administrative arrangements for the community charge.

We begin in this chapter by providing a brief overview of the rating system and of the new system introduced this year.

1 There are a small number of exemptions: see Chapter 2.

The Rating System

The use of taxes on property to provide revenue for local government can be traced back to the incorporation of a form of rating system in the Poor Relief Act (1601). In addition to this historical lineage local government property taxes are widely used throughout the world, either in combination with other forms of taxation or on their own. In the UK rates have, until this year, been paid on both business and domestic (residential) property. The amount of business or domestic rates payable was calculated by multiplying a tax rate called the "rate poundage" (normally expressed as a number of "pence in the pound") by the "rateable value" of the property. Business and domestic tax rates could not be set independently of each other; instead, local authorities (with certain exceptions) were required to set a poundage 18.5 pence lower ("domestic rate relief") on domestic premises to that which they set on non-domestic premises.

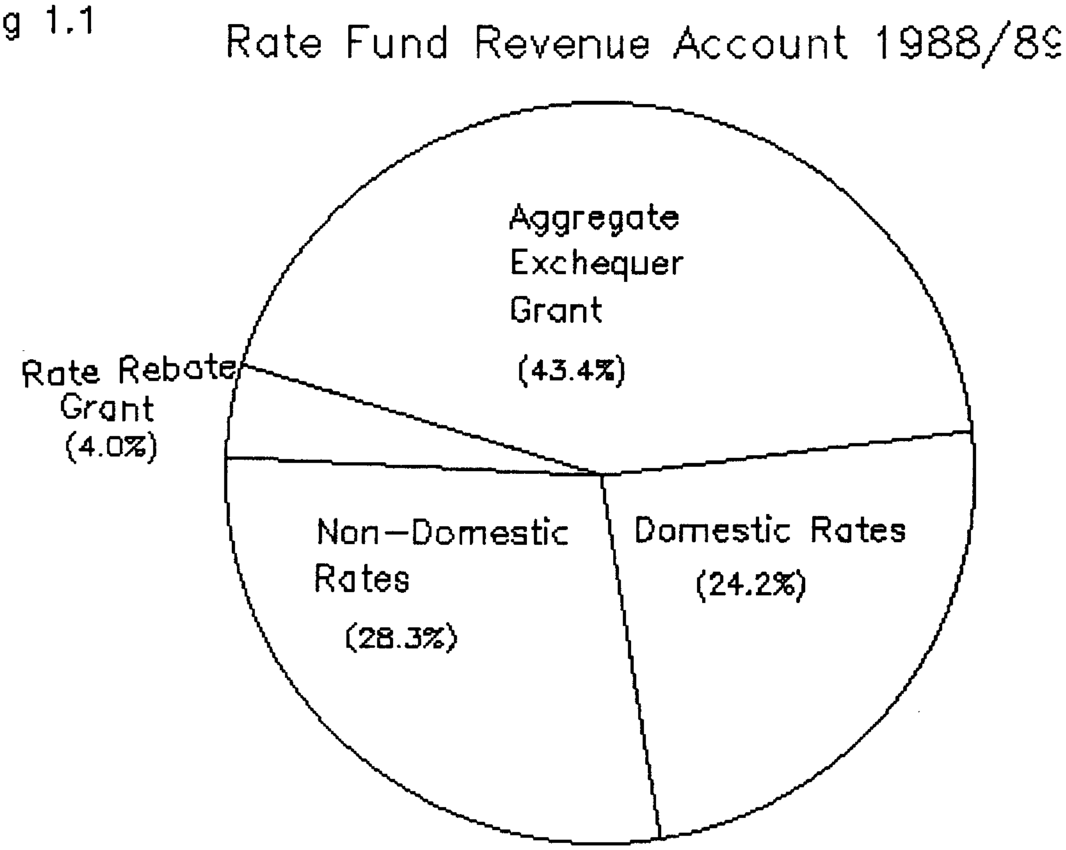
Rates were a tax on occupation, not ownership, and were thus paid by council and private tenants as well as owner occupiers. (In some cases, though, tenants made a combined rent and rates payment to their landlord). The rateable value of domestic properties was defined as their net annual value, which, broadly speaking, was the rent they might reasonably be expected to be let for in a given year, minus the costs of repair and maintenance. The values used in England and Wales were based on the rating list drawn up in 1973, and as a result had become increasingly out of line with the pattern of property values across the country.

Households received a single rates bill covering the various levels of local government. The lower tier authorities, shire and metropolitan districts, levied the rates with shire counties and parishes etc "precepting" upon the districts – that is, arranging for district authorities to collect their rate income.

Prior to April 1990 the principal sources of local authorities' net income in England and Wales were income from domestic rates, non-domestic rates and government grants. Figure 1.1 indicates that about half of revenue was met from rate income with a somewhat higher proportion contributed by the non-domestic sector than by the domestic sector.

Rate rebates were introduced soon after the report on the rates system by the Allen Committee (1965) which was concerned about the burden of rates on poorer households. As incomes increased the percentage of household income going towards the payment of rates declined "quite rapidly". Thus, rebates were used as a means of ameliorating the regressiveness of rates as a tax. Rate rebates, paid through Housing Benefit, provided a partial, or – until 1988 – a total, contribution to the household's local tax payments, based on the level of the local tax bill, the household's income, and the number and ages of household members. About a quarter of all households were receiving some level of rebate in 1989.

Fig 1.1



The Government's Critique

In the 1986 Green Paper "Paying for Local Government" the Government criticised the rating system for a lack of "accountability":

"Effective local accountability must be a cornerstone of successful local government. All too often this accountability is blurred and weakened by the complexities of the national grant system and by the fact that differences arise among those who vote for, those who pay for, and those who receive local government services" (p.vii).

The deficiencies of the rating system were argued to be of two sorts. Firstly, there was held to be a failure of incentives, since those voting for given levels of local authority spending were not necessarily the same people who had to bear the financial consequences of their decisions. Secondly, as a result of the complicated nature of the local government finance system there was an information problem: voters could not easily identify the actual relationship between taxation and spending, and the implications for local taxation of choosing different levels of local services.

The problem of incentives identified by the Green Paper arose, in part, because under the rating system both businesses and people not resident in a local authority area may be required to contribute to additional local spending. Non-residents may contribute because the effective incidence of business rates, that is, the eventual burden of the tax, can fall on individuals such as employees (through lower wages than would otherwise have existed), shareholders (if the effect is on profits) or customers (if firms push up prices). These individuals may be in a position of contributing to local authority income although they may reside outside the authority's area. In the Green Paper it is argued that this state of affairs was undesirable because:

(i) it was inequitable that business and non-residents should be required to contribute to decisions over which they had no control;

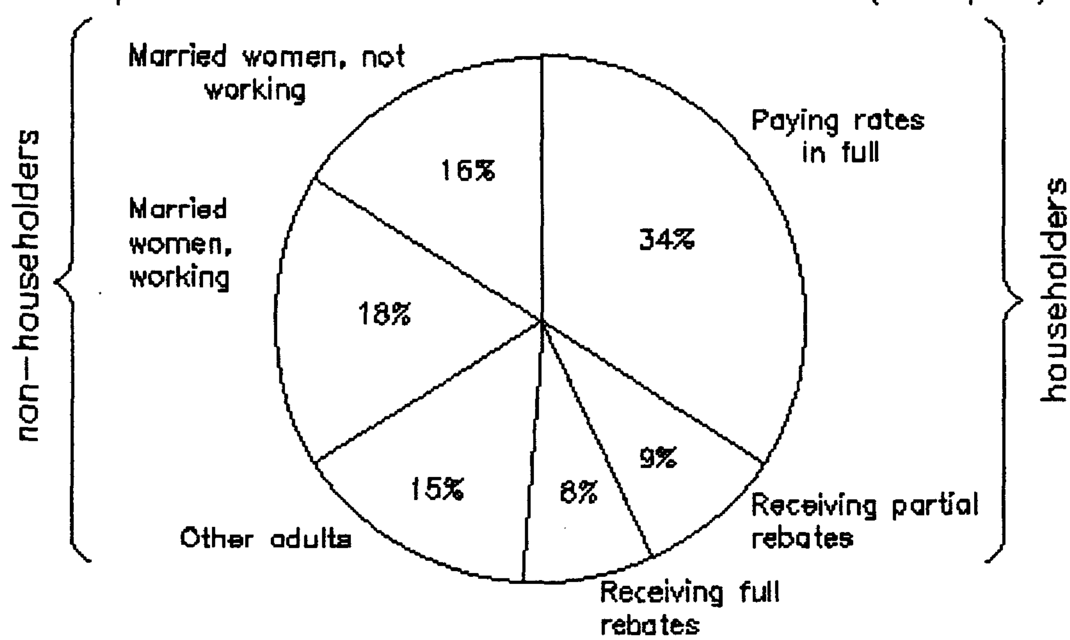
(ii) it reduced the marginal cost of local spending borne by the local electorate who could vote for local spending decisions, and hence meant that their decisions would not be made in the light of the "true" costs of spending; and

(iii) those individuals who bear the effective incidence of the business tax – employees, consumers etc – and who do have a vote are unlikely to perceive the link between the incidence of rates – in the form of lower wages or higher prices – and the benefits from local spending.

A second aspect of the problems of incentives and information discussed in the Green Paper was that only a proportion of the population was actually responsible for paying domestic rates. About 50% of the electorate received a rate bill directly (Figure 1.2). The Green Paper observed that of 35 million who would be liable for a local tax bill in England only 18 million are liable to pay rates, and, because of rebates, "only about 12 million actually pay their rates in full".

Fig. 1.2

Proportions of the electorate liable for rates (1984/85)



Source: "Paying for Local Government" (Cmnd 9714), and own calculations based on 1984 Family Expenditure Survey

The Government has also argued that the use of block grant and its role in resource equalisation (i.e. its attempts to compensate for widely varying rateable values across authorities) were confusing and little understood by local electors, thus making public perception of the relationship between tax payments and spending weaker, and therefore reducing "accountability".

The Changes in Local Government Finance

The Government's introduction of the community charge aims to extend the number of local taxpayers from the 18 million households in England who were previously liable to pay domestic rates to the 35 million adult residents. Community charge bills are sent to each liable adult, emphasising the individual basis of the charge. In addition, the provisions in the Social Security Act (1986), which in 1988 meant that rate rebates were no greater than 80% of rate bills, have been extended to the community charge.

The second main feature of the Local Government Finance Act is that local government's control over the setting of the business rate poundage is transferred to central government. Under the new system a national uniform business tax rate is set. The revenue from the business rate is pooled and then redistributed to local authorities as an equal amount per capita. The ending of local control over the business poundage implies that any additional local spending above the revenues received from grant, charges and the uniform business rate will be fully borne by the community charge payers. A further aspect of the removal of local authority control over the business rate is that the proportion of a local authority's income which it can vary to finance spending is narrowed. Compared with the rating system where 50% of expenditure was financed from the rates the percentage falls to less than 25% under the new system.

Reducing the proportion of their income which local authorities can vary has important implications for the relationship between growth in spending and growth in taxes. Table 1.1 attempts to give a simple explanation of these "gearing" effects. In Table 1.1 a local authority is shown receiving income from grant, business and the domestic sector. The authority increases expenditure from 200 to 210 units i.e. by 5 per cent. The table shows that under the rating system the authority can increase its contribution from both the business and domestic sector. It follows that the resulting percentage increase in tax raised from domestic taxpayers is 10% i.e. a rise from 50 to 55 units[2]. Under the community charge, domestic taxpayers take the whole burden, because grant and the business contribution is fixed, and therefore the rise in the increase in community charge in percentage terms is 20%. Thus, the percentage increase in local domestic taxation needed to finance an increase in spending

2 We have assumed that marginal grant contributions are zero, ie the grant level is fixed. Until 1989/90 the marginal contribution of grant to local spending could be either positive or negative, thus reducing or increasing the gearing effect.

(or, equivalently, a reduction in central government grant) is increased by the "narrowing of the discretionary tax base" available to local authorities (Smith and Squire, 1986). It has been argued that this increase in gearing blurs the signals to community charge payers which indicate by how much local authorities are increasing or decreasing expenditure (Diekman and Schutz, 1989).

Table 1.
Illustration of the effects of narrowing the discretionary tax base, under rates and the community charge.

Expenditure	=	Grant	+	Business	+	Domestic
Rates						
200		100		50		50
210		100		55		55
Community Charge						
Expenditure	=	Grant	+	Business	+	Domestic
200		100		50		50
210		100		50		60

The 1988 Act also introduced a number of changes to the system by which central government grants are paid to local authorities. The Green Paper points out that as a result of the introduction of the community charge and the changes in the non-domestic sector the problem of an uneven distribution of rateable resources among local authorities no longer exists. Thus it follows that the need for using block grant to equalise resources is removed. The new grant system contains a lump-sum needs grant element, which will compensate for differences between authorities in the spending needed to provide a standard level of service. Standard spending levels are determined by central government and are based on indicators of need in seven major service blocks: these include education, social services, fire and civil defence, etc (Department of Environment, 1989). In this respect they are similar to the previous Grant-Related Expenditure Assessment, although the calculation of the index of spending needs is based on fewer indicators in the new system. The main impact of the new grant system is that community charge payers will pay the same amount for spending at the standard level of service. Further, despite the fact that some adults will be receiving rebates most of any increase in expenditure will in fact be borne by those paying the community charge. A final aspect is that it is now easier for the government to cash limit the Exchequer grant in comparison with the spending-related grant system operated over the last 10 years.

Summary and Chapter Contents

The two main elements of the 1988 Local Government Finance Act have been the introduction of the community charge and the uniform business rate. The Government has argued that these changes will improve "accountability" in local government, for two main reasons. Firstly, they will ensure that only local residents bear any part of the tax "cost" of increasing local spending above "standard" levels, assessed by the government; no contribution to extra spending will be made by either business ratepayers or central government. Secondly, they ensure that all adult local residents pay all or some part of the local tax; it is suggested that this will ensure that the electorate perceives clearly the relationship between paying for local services and local expenditure.

The plan of this report is as follows. In Chapter 2 we discuss the administration and implementation of the community charge. This chapter is based on detailed questionnaire results from 198 local authorities in England and Wales. The questionnaire collected details on how they approached the first year of the community charge in the key areas of registration, collection and billing. A major requirement for the success of the community charge is that registration of all adults liable for the charge should be as comprehensive as possible. We evaluate the various methods used by local authorities in organising registration, and also their plans for billing and collection. The survey also assesses the staffing requirements and costs of running the community charge, in comparison with the costs of the rating system.

In Chapter 3 we analyse the community charge levels set by local authorities in April 1990 and discuss the relative contributions of expenditure decisions, needs and other grants, plus the revenue from the uniform business rate to the change between average rate payments in 1989/90 and the community charge in 1990/91.

Chapter 4 examines the distributional issues involved in moving from domestic rates to the community charge, concentrating in particular on the distribution of income between households. What have been the effects on income distribution of the switch from domestic rates to community charge?

Chapter 5 analyses the reform of non-domestic rates – the uniform business rate coupled with the revaluation of non-domestic property. Taking account of the limits applied by the government on reductions and increases in business rates we evaluate the short term and longer term effects of the change – identifying the gainers and losers and how they have been distributed across England and Wales.

In Chapter 6 we summarise our findings and draw conclusions.

Chapter 2

ADMINISTRATION OF THE COMMUNITY CHARGE

In this chapter we analyse the results of a questionnaire sent by the Institute of Revenues Rating and Valuation to all local authorities in England and Wales at the start of January 1990. The questionnaire concentrates on the administrative aspects of the implementation of the community charge, such as registration, billing and collection. The total sample comprises 198 authorities from the 403 authorities in England and Wales[3]. The sample was relatively evenly distributed across class of authority – i.e. London, Metropolitan, Non-metropolitan and Welsh – with close to 50% of authorities responding from each class. This chapter describes the results of our analysis of the questionnaires and in particular attempts to get an insight into the difficulties authorities had in implementing the community charge in the first year of the reforms. The chapter is split into three main sections, the first covering registration, the second, billing and collection, and the third, costs.

Registration

Charge Payers

There are three main categories of community charge.

The *personal community charge*, or "poll tax". The personal community charge is payable by everyone aged 18 or over, at their sole or main place of residence except for people in a number of categories who are exempt from liability to pay.

The *standard community charge* is levied on individuals who are owners or leaseholders of domestic properties which are not the sole or main residence of any person, e.g. vacant domestic properties or second homes. Thus, some element of a property tax remains in the system. A local authority will apply a multiplier to the personal community charge to determine how high the standard community charge will be. The multiplier can be set by the authority between 0 and 2 for different classes of property. Clearly, a multiplier of 2 means a bill equal to two personal community charges, which further implies for example, that leaving a property empty in a low-tax authority is less expensive than in a high tax authority – assuming the multipliers are set at the same rate.

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3 Questionnaires were also sent to all local authorities in Scotland. An analysis of the Scottish results will be set out in a separate IFS paper.

The *collective community charge* is paid by landlords of properties which are used for short-stay sole or main residences and from where the local authority deems personal community charge collection would be difficult. The purpose of this charge is to make it more practicable to receive income from highly mobile individuals, predominantly young single people. The collective community charge is thus to assist authorities who would possibly experience difficulties of registration and a consequent loss of income due to the high turnover of this part of its population.

Table 2.1 shows the average number of charge payers[4] and properties in the local authorities in England and Wales who responded to the survey.

Table 2.1

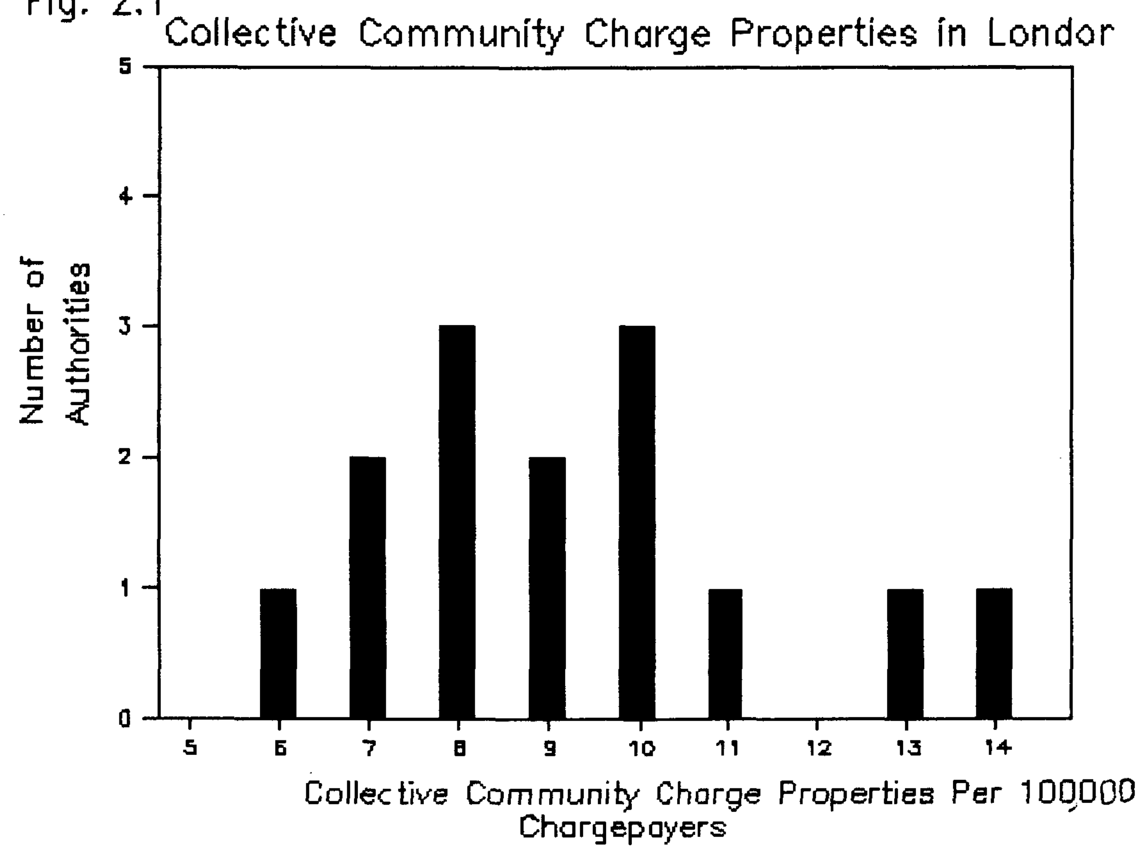
Average Number of Charge Payers and Properties

	Average number of personal community charge payers per authority	Average number of standard community charge payers properties per authority	Average number of collective community charge properties per authority
London	150,116	3469	20
Metropolitan districts	187,983	2719	6
Non-metropolitan districts	77,651	1623	5
Wales	62,847	1096	4
All authorities	96,110	1841	7

Clearly, by far the largest charge category is the personal community charge. We note that, if we assume a standard charge multiplier of 2 is levied in all cases, the revenue received from standard charge payers will be just below 4% of the total revenue received from charge payers as a whole. London authorities have a relatively large number of collective community charge properties compared with the rest of the country, reflecting in particular inner London which has a substantial number of multi-occupied properties. Designation for the collective community charge is a matter for an authority's community charge Registration Officer (CCRO) to decide, and practices may well vary from authority to authority, even within London. Figure 2.1 shows the distribution of the number of collective charge properties per 10000 personal charge payers in London authorities. Evidently, very sparing use has so far been made of the provisions for collective community charge in nearly all authorities.

4 In appendix A there is a copy of the questionnaire sent to authorities in England and Wales by the Institute of Revenues, Rating and Valuation, and in Appendix B, the response rates to each question.

Fig. 2.1



Exemptions

There are a number of categories of people who are entirely exempt from paying the community charge. In the questionnaire local authorities were asked to state the number of people to be granted exemption from the personal community charge. In addition authorities also indicated, where the information was available, the relative importance of the different exemption categories in percentage terms. Tables 2.2 and 2.3 list the main categories of exemption and summarise the results from the questionnaire. By far the largest exemption category are people in long term residential care, hospitals, nursing homes etc. For example in Wales over 50% of the exemptions are in this category. There appears to be little regional variation in the percentages except for the figure of 5% of exemptions in London which are members of religious orders, and that London and the Metropolitan districts have a slightly higher proportion of severely mentally impaired people as exemptions. Figure 2.2 highlights that the majority of authorities had exemptions of between 1% and 3%. A few authorities (2% of the sample) had no exemptions at all and 2½% had over 4% of exemptions. One authority classified nearly 8% of its potential charge payers as exempt.

Fig 2.2

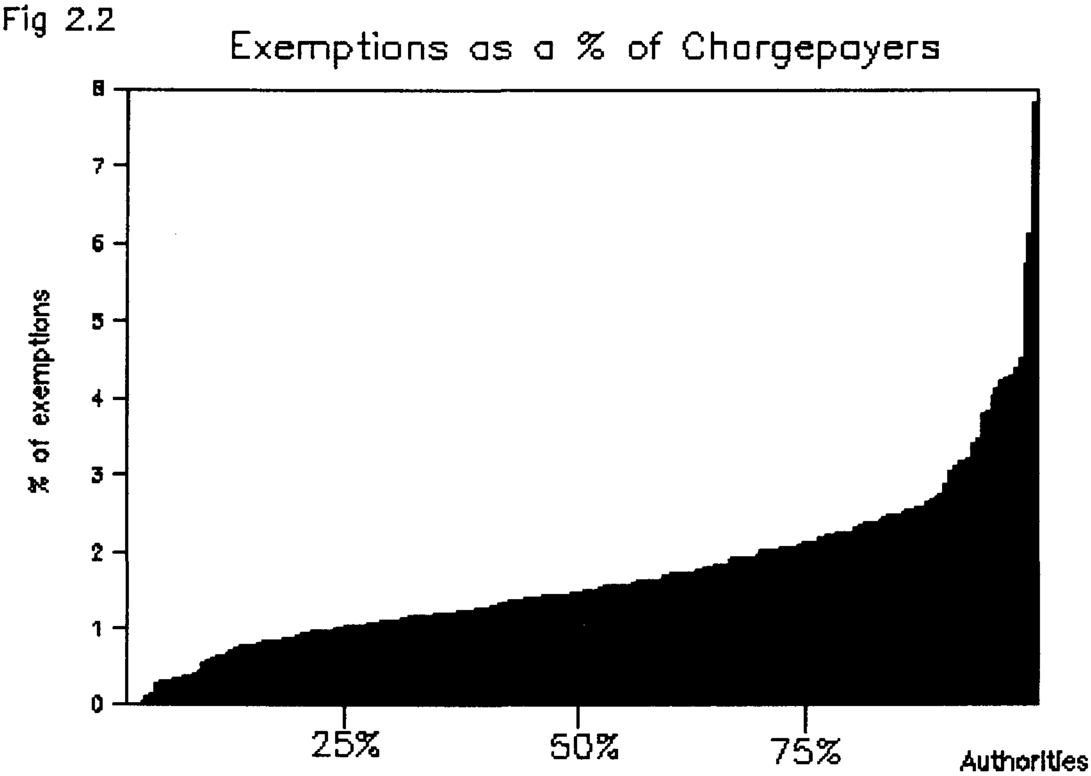


Table 2.2 Exemptions as a Percentage of Charge Payers		
	Average number of exemptions per authority	Exemptions as a percentage of personal community charge payers
London boroughs	1980	1.3%
Metropolitan districts	2593	1.4%
Non-metropolitan districts	1355	1.8%
Wales	1074	1.7%
Total	1540	1.7%

Table 2.3

Exemption Categories

	London boroughs	Metropolitan districts	Non-metropolitan districts	Wales	Total
(i) Members of visiting forces, diplomats etc	2%	<1%	5%	2%	4%
(ii) People who are seriously mentally impaired	18%	20%	14%	16%	17%
(iii) Pupils over 18 who are still at school	27%	25%	22%	23%	24%
(iv) Full-time students whose term address is in Scotland or N. Ireland	0	0	<1%	<1%	<1%
(v) Patients residing solely or mainly in an NHS hospital	7%	9%	5%	6%	7%
(vi) People whose sole or main residence is in a residential care home, nursing home, private hospital etc	36%	43%	49%	50%	43%
(vii) Residential care workers	1%	<1%	<1%	<1%	<1%
(viii) Residents of certain crown buildings	2%	0	1%	0	1%
(ix) Members of religious orders	5%	1%	2%	1%	2%
(x) Prisoners	1%	1%	1%	<1%	1%

Note: Due to rounding, column totals do not necessarily sum to 100%

Students

Students who are studying full-time are liable to pay only 20% of the personal community charge to the local authority in whose area they reside during term time. To be defined as a full-time student they are required to be undertaking a qualifying course of higher education for at least 21 hours a week and for no less than 24 weeks in a year. (Thus, it is feasible that students may spend only half of their time in the authority where they pay their community charge in a given year.) In the questionnaire respondents were asked to estimate the number of students subject to a personal community charge but eligible for the 80% relief.

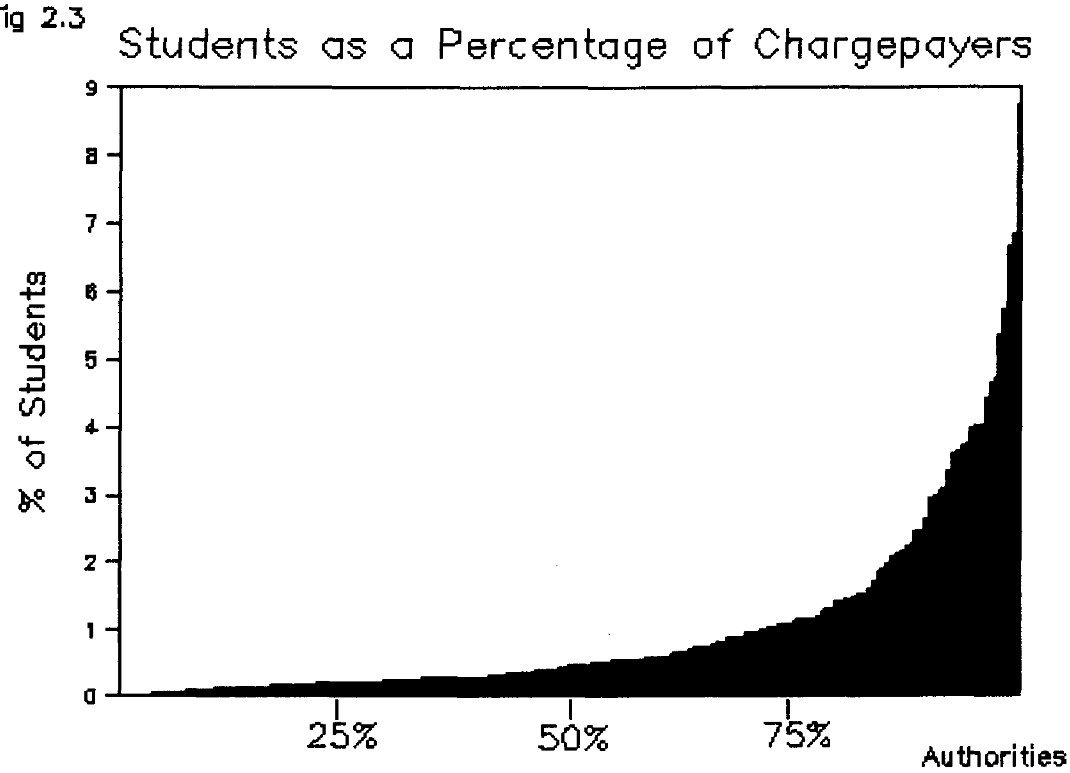
Table 2.4

Students

	Average number of full-time students eligible for relief per authority	Students as a percentage of all individuals subject to the personal community charge
London	1829	1.2%
Metropolitan districts	2719	1.4%
Non-metropolitan districts	995	1.3%
Wales	1096	1.7%
All	1247	1.3%

Figure 2.3 highlights the point that a large number of authorities have very few students as a percentage of all charge payers. However, it can also be seen that students are a substantial proportion of all charge payers for at least 10% of authorities – the top end of the diagram. In one case, not shown in the diagram, a university town has 22% of its charge payers as students.

Fig 2.3



Penalties

Under the 1988 Act CCROs were given powers to assist them in compiling the community charge register. These included imposing penalties of £50 and £200 for failure of the "responsible individual"[5] to supply information. In the questionnaire local authorities were asked how many £50 and £200 penalties were imposed for failure to supply information to the CCRO and, further, what percentage of these penalties were subsequently withdrawn. Nearly 50% of the sample of authorities had not (so far, at least) imposed any £50 penalties and over 85% had not imposed any £200 penalties. Table 2.5 shows the average number of £50 and £200 penalties and the subsequent withdrawals in percentage terms. Table 2.6 indicates that there was a wide variance around the average in the number of £50 penalties imposed by authorities; some authorities were considerably more prepared to have recourse to penalties than others.

5 A responsible individual is defined as either the owner or tenant of the premises or the person the CCRO choose to designate as the responsible individual.

Table 2.5 Penalties				
	Average number of £50 penalties imposed per authority	% of £50 penalties withdrawn per authority	Average number of £200 penalties imposed per authority	% of £200 penalties withdrawn per authority
London boroughs	988	52%	188	0
Metropolitan districts	12	24%	0	0
Non-metropolitan districts	66	37%	7	20%
Wales	31	40%	3	36%
Total	115	37%	19	18%

In the majority of authorities – over 60% – the CCRO personally made the decision to impose or withdraw the £50 and £200 penalties. In around 40% of authorities the principal officer determined whether penalties were imposed. Across local authorities there was approximately the same pattern of responsibility between the CCRO or Principal Officer on the decision to withdraw the penalties.

Table 2.6 Imposition of £50 Penalties		
	Highest number of penalties imposed in an authority	Lowest number of penalties imposed in an authority
London	4750	0
Metropolitan districts	200	0
Non-metropolitan districts	1400	0
Wales	224	0

Initial Registration and Maintaining the Register

In terms of setting up the community charge register local authorities chose primarily two methods of canvass. A blanket postal canvass was the predominant method, carried out by 87% of all local authorities, and 13% of all authorities preferred door-to-door canvassing. There were substantial differences across authority classes. Table 2.7 highlights these differences and also shows the predominant method used by the public for returning forms. Nearly all authorities had returns of registration forms by post. However, significant numbers, particularly in the metropolitan districts, also collected forms from individual addresses.

Table 2.7

Canvass and Return of Forms (% of authorities)

	Predominant canvass method selected by authorities		Methods available to the public for return of forms	
	Postal canvass	Door-to-door	Returned by post	Collected by canvassers etc
London	78%	22%	100%	15.4%
Metropolitan districts	100%	0	100%	41%
Non-metropolitan districts	86%	14%	100%	0
Wales	86%	14%	96%	6%
All	87%	13%	97%	11%

To assist in the initial registration and the subsequent maintenance of the register local authorities were able to draw on a number of information sources. In the questionnaire local authorities were asked to assess in terms of usefulness the main information sources they had available to them. Nearly all authorities assessed rates records and rent records as "very useful" in assisting in compilation and maintenance of the community charge register. Also a large number of authorities regarded housing benefit records, DSS records, and the electoral register as either "useful" or "very useful" although a significant number of authorities, primarily in the districts, had a relatively mixed response on the use of these sources. Available sources which in general were seen as not very useful or no use at all were births, deaths and marriage registers[6], planning records and library records. Whether an authority had a significantly high student population determined whether college records were useful. It seemed surprising however, that of the proportion of authorities who did utilise college returns only 37% found the source useful and 11% found them "not very useful" (see Table 2.8). It is also of interest that nearly 5% of local authorities decided not to use the electoral register at all, whereas close to 80% of authorities found the electoral register as either useful or very useful.

6 The value of these may well grow over time, as maintenance of the register will require information on changes to the population.

Table 2.8 Sources of Information for Registration – All Authorities				
	Very useful	Useful	Not very useful	Not used at all
Rates records	86%	14%	0	<1%
Rents records	56%	37%	6%	2%
Housing benefit records	38%	47%	5%	10%
DSS records	17%	50%	15%	18%
Electoral register	35%	42%	18%	5%
Birth, deaths, marriage registers	7%	21%	9%	63%
Planning records	5%	16%	20%	59%
Library records	0	1%	2%	98%
University/Higher Education records	18%	37%	11%	35%

Local authorities were also asked to respond to a question about their intention in carrying out future canvasses to keep the register up-to-date. Ninety per cent of authorities were able to report their plans for how they would be maintaining the register with the other 10% of authorities having not made a decision yet. Authorities were also asked about how frequently future canvasses will be carried out. Over 80% of authorities have opted for a "rolling canvass", with 5% planning an annual blanket canvass, and 4% choosing a blanket canvass but at less frequent periods. A number of local authorities did not respond to the question implying that decisions had not been made yet.

There has been a debate over the last couple of months about how successful local authorities have been at registering individuals. Reports in newspapers have highlighted the point that some authorities have registered more than 100 per cent of the estimated population for the community charge. These estimates should be treated with caution for two main reasons. Firstly, the population estimates of each authority are based on projections by the Office of population Censuses and Surveys derived from 1981 census data, and may by now have become somewhat inaccurate. Secondly, there may have been some degree of "over registration" – individuals may have been registered in more than one authority, either by accident, or because some individuals took the line of least resistance in dealing with registration requests. As Kay and Smith (1988) argued, avoiding multiple registration is likely to be one of the principal sources of complexity and cost in the administration of the community charge, and it is unlikely that the high percentage registration figures reported reflect any great effort so far to eliminate overlaps in the registers of different authorities.

In the present questionnaire authorities were simply asked about their success in registering the households they initially identified from their information sources. This is not a complete indicator of registration success as local authorities may not have identified all households in the initial canvass and, of course, the principal problems of registration concern the identification of the number of individuals in each property. Possibly an alternative way of assessing this data is to view it as an indication of the co-operativeness of the population. Regarded in this way, Table 2.9 suggests that the vast majority of households were relatively prompt in sending back their registration forms.

Table 2.9

Rates of return of canvass forms

	What % of households had returned canvass forms by the time of the first reminder	What % of households had returned canvass forms by the time of the second reminder	What % of households had returned canvass forms by Jan 1990	Average number of reminder stages
London	72%	89%	100%	2
Metropolitan districts	84.4%	95%	99%	2.5
Non-metropolitan districts	87.4%	93%	98.8%	2.3
Wales	82%	93.7%	99.2%	2.6
All	80.7%	93.6%	99.3%	2.3

Contracting out the registration functions

Local authorities were asked whether the main function of the registration process had been carried out by the department dealing with registration itself, or by another body. Table 2.10 below summarises the response of authorities.

Table 2.10 Registration Functions				
	Another local authority	Private company	Company wholly/ partly owned by the authority	Another department within the authority
Complete registration process	0	2%	0	0
Printing of canvass forms	2%	46%	0	4%
Issue of canvass forms	0	4%	0	0
The canvass process	0	0	0	5%
Development of software package	7%	43%	1%	2%
Data input of canvass returns	<1%	13%	0	2%

Broadly speaking about half of local authorities decided to contract out at least one part of the registration function. Contracting out was concentrated on printing and development of the software package, and it is likely that the latter function will only be a small feature of the future registration process. Therefore, it appears that local authorities were in general prepared to take on the registration process themselves. When local authorities were asked whether any part of future canvasses would be contracted out, or performed by other departments within the authority, the proportion of authorities who will not contract out at all rose by 36% to 68% of the sample. A further 16% were still undecided. This leaves only 16% certain that they will contract out at least one function. This 16% is split into 11% of authorities who will contract out exactly as they did during this year's registration process and 6% who are contracting out some functions but not necessarily as the previous year.

Billing and Collection

It has been widely recognised that the move away from taxing households to individuals will double the number brought into the local tax system. This growth in numbers has implications for the volume and cost of payments processing. The questionnaire asked about two aspects of payments – the methods available to individuals when paying their community charge bills, and the permitted payment frequencies.

Local authorities offer a wide variety of alternative ways in which community charge payers could make payment (Table 2.11). All authorities offered the opportunity of paying by direct debit in addition to the more traditional facilities for over-the-counter payment and postal payment. Rather more than half were also prepared to accept standing order payments, and about half, payments through the Girobank. Other methods, including credit card payments, community charge stamps, automated payment machines, and collection by rent collectors were accepted by smaller numbers of authorities.

Table 2.11

Percentage of authorities offering particular methods of payment

	Total
Direct debit	100%
Standing order	60%
Community charge stamps	5%
Over the counter payment	96%
Postal payments	94%
Post Office Girobank	48%
Automated payment machines in council buildings	14%
Credit card	6%
Automated payment points in newsagent etc	10%
Collection by rent collectors	18%

To get an indication of the volume of payments expected in each form, Table 2.12 shows for the different classes of authority the percentage of charge payers *expected* to use each facility. Table 2.12 indicates that direct payment to the local authority either over the counter, through postal payments, or through the Post Office Girobank system is expected to remain most popular, with over 56% expected to use these methods. Forty per cent of charge payers are estimated to be paying by direct debit or standing order. There seems little variation across classes of authority other than the well above average estimate (43%) for the numbers of charge payers opting to pay over the counter in the metropolitan districts. The Post Office Girobank method was relatively more popular in London, also the use of automated payment machines in council premises or elsewhere. Community charge stamps appear as if they will not be utilised by many authorities in the first year.

Table 2.12

Methods of Payment expected to be used by Charge Payers
(% of payments)

	London	Metropolitan districts	Non-metropolitan districts	Wales	Total
Direct debit	25%	23%	36%	32%	34%
Standing order	12%	6%	5%	<1%	6%
Community charge stamps	0	0	<1%	0	<1%
Over the counter payment	20%	43%	29%	32%	30%
Postal payments	19%	16%	20%	18%	19%
Post Office Girobank	15%	7%	6%	10%	7%
Automated payment machines in council buildings	3%	2%	1%	0	1%
Credit card	<1%	<1%	<1%	<1%	<1%
Automated payment points in newsagent etc	4%	1%	1%	1%	1%
Collection by rent collectors	<1%	<1%	2%	7%	2%

In addition to the method of payment, there is also the question of what payment frequencies will local authorities promote. The results in the questionnaire indicated that 77% of local authorities are offering ten monthly instalments, but no other payment. Ten per cent of authorities are offering fortnightly payments and a further 10 per cent are allowing charge payers to pay weekly.

Very few authorities, in 1990/91 will be offering any form of discount for lump sum payments. Of the sample, two authorities are offering a discount of 5%, and one a 2½% discount, for prompt lump sum payments. No discounts were offered for payment by direct debit.

Previously under the rating system local authorities tended to bill council tenants for rent and rates through a single, combined, bill; this practice will have to end with the community charge. Only 6.6% of authorities had introduced separate rent and rates billing prior to the introduction of the community charge. Council tenants in 1990/91 will now have to use one of the payment methods in Table 2.12. One of the benefits for council tenants – and housing association tenants – is that unlike many tenants in the private sector they will see a clear reduction in their rents once the rates have been removed. Private sector tenants will be in a situation whereby they may have to renegotiate rents with landlords.

Benefit Publicity

The system of local tax rebates (community charge benefit) significantly modifies the burden of local taxes for the poorest quarter of the population. However rebates, as under the rating system, have to be claimed, and their effectiveness in reducing the local tax bills of poorer households will depend on individual take-up. Local authorities used a variety of media in an attempt to inform individuals about community charge benefits. Table 2.13 shows the most popular method of publicity authorities arranged for community charge benefits.

Table 2.13

Publicity

	London	Metropolitan districts	Non-metropolitan districts	Wales	All
Radio	7%	37%	17%	0	17%
Local Press	71%	89%	49%	21%	53%
Leaflets to households	93%	90%	85%	79%	86%
Leaflets at authority offices	72%	95%	86%	57%	83%
No publicity is arranged	0	0	3%	7%	3%
Other	42%	32%	21%	7%	22%

A large number of authorities noted that in addition to the list in table 2.13 they also publicised benefits through lectures and talks at public meetings and local committees, put posters and leaflets in libraries, and set up advice bureaux.

When authorities were asked "when their authorities publicity for community charge benefits commenced?", most authorities stated that publicity started in the last two months of 1989. Other than one particularly eager authority starting its publicity drive in October 1988, a minority of authorities started publicity in the spring of 1988 with a gradual increase in authorities publicising during the summer. About 10% of authorities did not start their publicity until January or February 1990.

Costs and Staffing

Staffing levels

It has already been noted that the administrative workload for local authorities will increase under the community charge compared with the rating system. Price Waterhouse, the management consultants, in considering the implementation and collection of the community charge estimated that close to 28,000 staff will be required to administer the new system (Price Waterhouse, 1988). This is over 15,000 more staff than were needed to administer the rating system (Blair, 1988). The questionnaire asked about staffing levels under the old system as at 1 April 1989, and during the build up to the introduction of the community charge on 1 December 1989. Local authorities were also asked what their full-time staffing complement under the community charge system in 1990/91 was expected to be. Table 2.14 highlights the main results.

Table 2.14

Staffing for Community charge

	Average Number of Staff (Full – time equivalents)				
	London	Metropolitan districts	Non-metropolitan districts	Wales	All
Staffing complement under the domestic and non-domestic rates as at 1 April 1989	60	59	23	17	29
Staffing complement required for community charge and non-domestic rates as at Dec 1 1989	94	96	39	28	47.5
Expected full staffing complement required for community charge and non-domestic rates for 1990/91	152	132	47	36	62

On average and across all authorities the numbers of staff required to administer the new system compared with the rating system has doubled. Across the classes of authorities apart from slightly larger percentage increases in staff in London and the Metropolitan districts, the percentage increases are almost uniform. In addition the authorities also indicated the number of vacancies that had remained unfilled due to shortage as at December 1 1989. Table 2.15 indicates the average number of unfilled vacancies.

Table 2.15 Unfilled vacancies					
	London	Metropolitan districts	Non-metropolitan districts	Wales	All
Average number of vacancies, per authority	45	17	6	3	10

Table 2.15 indicates that the need to recruit additional staff in a relatively short period of time has been difficult for local authorities particularly in London and the Metropolitan districts. The labour market in London has been relatively tight thus making recruitment difficult. The vast majority of vacancies reported were in non-specialist posts, requiring no particular professional qualification.

Costs of Implementation

Local authorities were asked in the questionnaire to give the revenue costs of administering domestic and non-domestic rates in 1989/90. Also authorities were asked for their best estimate of the revenue costs of registering and collecting community charge and non-domestic rates in 1990/91. Table 2.16 summarises the responses by local authorities to these questions on costs of implementation.

Table 2.16 Average Costs per authority (£ 000s)					
	London	Metropolitan districts	Non-metropolitan districts	Wales	All
Rates and non-domestic rates in 1989/90	£1266	£1265	£472	£279	£560
Community charge and non-domestic rates in 1990/91	£2644	£2625	£998	£678	£1271

As the preceding analysis has indicated local authorities have considerable extra burdens in administering the community charge relative to the rates. Taxing individuals means keeping an up-to-date register which imposes considerable costs in terms of the method of contacting individuals, keeping tabs on highly mobile individuals, administering the penalties process etc. Billing individuals, rather than properties also increases paperwork and staff time. The movement away from incorporating local tax bills in council tenants rents has also increased the burden of administration and ease of collection of tax bills. The extra burden on authorities of these additional functions has meant that, on average, the running of the community charge tends across authorities and classes of authority to be *twice* as costly as the administration of the rating system.

Chapter 3

COMMUNITY CHARGE LEVELS

In this chapter we consider the implications of the new system of local government finance for the financial resources available to individual local authorities, and for the levels of local tax that they must set to cover their expenditures. The new financial arrangements change the relationship between the level of local spending and the level of taxation required to finance that expenditure, requiring some authorities to raise more in local domestic taxation than under the rating system, and others to raise less. The direction of these changes constitutes a long run redistribution of financial resources between authorities and, ultimately, between residents of different parts of the country. In the first half of this chapter we discuss the direction of these long run changes, and the reasons for them.

The second half of the chapter examines the community charge levels set in the first year by local authorities across England and Wales. It sets out the wide range of factors that account for the community charge levels set in 1990/91, and for the changes in average levels of local taxation between 1989/90 and 1990/91.

The long run effect

To understand the effects on local tax bills of the transition from rates to community charge we must begin with the way local finances operated under the rating system. In the following we consider a simplified description of local government finance which aims at capturing the essential elements of the way in which local authority revenue was previously generated. This allows us to trace through the effects of the new tax and of associated changes to the grant system.

The tax revenue of local authorities under the rating system was determined by applying a tax rate (rate poundage) to the rateable values of business and domestic properties. In simplified[7] terms:

$$\boxed{\text{Rate income}} = \boxed{\text{rate poundage}} \times \boxed{\text{rateable value of domestic and business properties}}$$

In practice, however, the total revenue of individual local authorities was determined, not only by the relationship shown above, but also by the level and pattern of the distribution of Block Grant by central government.

7 The principal simplification is to ignore the difference between business and domestic rate poundages; we also ignore the role of charges, council house rents, etc., and the role of specific grants.

$$\boxed{\text{Total revenue}} = \boxed{\text{Block Grant}} + \boxed{\text{Rate income}}$$

In distributing Block Grant it was recognised that some local authorities would have more taxable resources because they had concentrations of business and domestic properties with high rateable values. If these high rateable value authorities were allowed to retain all the rate revenue from the local tax base then for a given level of expenditure they would be able to set a rate poundage lower than authorities with lower total rateable value.

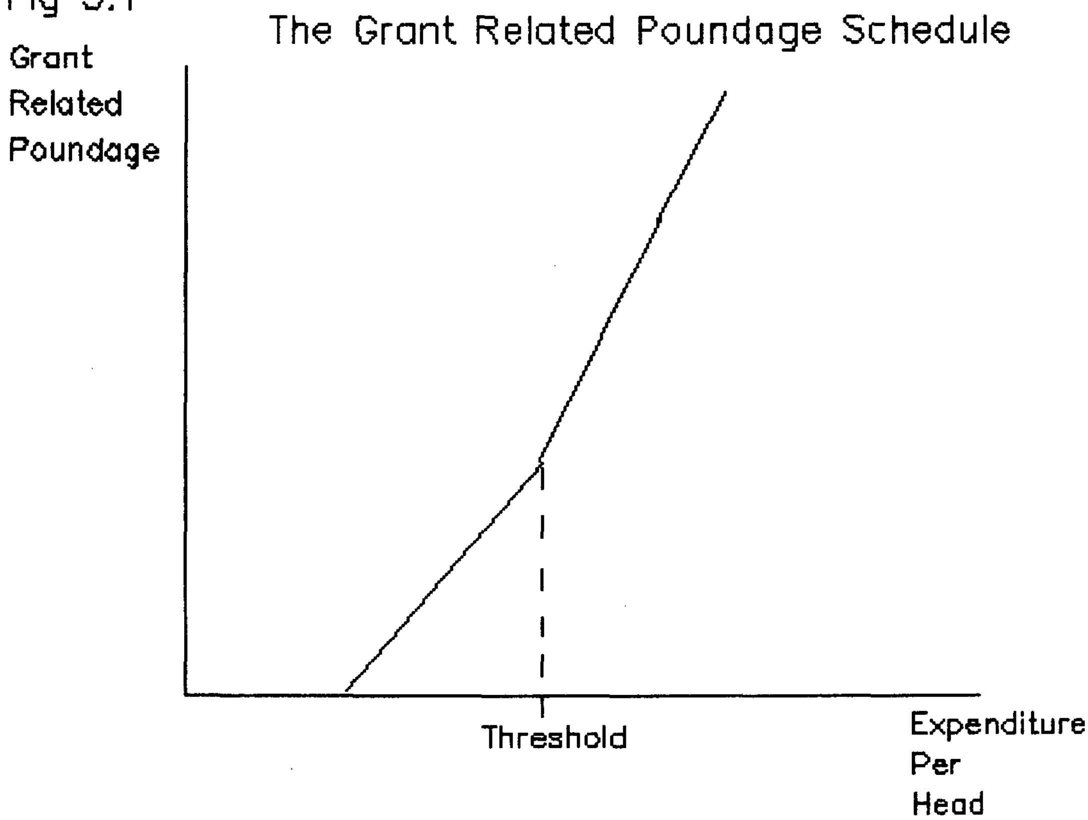
To compensate for these resource differences the Block Grant was structured in such a way that it had the effect of achieving a substantial degree of "resource equalisation". It attempted to create a situation whereby local authorities who spent at a standard level – determined by central government – would in fact be able to set the same rate poundage, regardless of the size of their local tax base, and where the increase in rate poundage necessary to finance an increase in the level of local spending was also unrelated to the level of the local tax base.

This state of affairs was achieved in the Block Grant system by specifying the relationship between spending levels and the local tax rate that should hold in all authorities, regardless of their tax base. This schedule, the "grant – related poundage schedule", had the form illustrated in Figure 3.1. Figure 3.1 shows how, as a local authority increased its expenditure per head of population, the grant related poundage also rose. Once an authority reached a threshold set by central government, then the grant related poundage increased at a faster rate. But the important point, which achieved the effect of equalising resources between authorities, was that the grant related poundage related to the authority's spending level, but *not* to its aggregate tax base.

Clearly, as expenditure increased, local authorities were able to apply the higher grant related poundage to their total rateable value and thus increase their income from rates. Nonetheless, this did not mean that local authorities with high rateable values found extra spending easier to finance. Raising spending also had implications for the amount of grant received, in such a way as to offset the resource advantages of a large local tax base. In general, those authorities with low rateable values were treated more advantageously by the grant system. In 1989/90 a very large proportion of authorities faced a reduction in grant as expenditure rose – i.e. the marginal rate of grant was negative. Nevertheless, those with *lowest* rateable values lost *less* grant for any given increase in spending than those with a higher local tax base.

In practice, a small number of authorities retained some of the benefit from having high rateable resources. There are two main reasons why these circumstances arose. Firstly, block grant could not fall below zero. Therefore, once an authority was not in receipt of block grant it would be in a position where it could receive all the benefits from its rate income. Local authorities which have been in this position include Camden, Westminster and the City of London. In Camden, total rateable value was so large that even at the standard spending level Camden's rate income would be higher than its

Fig 3.1



expenditure and therefore it was not in receipt of block grant. As a result, Camden could finance additional expenditure from the rates and retain all the revenue raised from its substantial tax base.

The use by central government of multipliers also modified the operation of resource equalisation within Block Grant. Multipliers were widely used during the 1980s for a number of reasons (see Travers, 1986 p.97 for a summary).

Within the London area the multipliers worked so that the rate income assumed in calculating Block Grant was reduced by applying a multiplier of less than 1.0, and therefore greater block grant was received. Using low multipliers in London preserved some of London's rateable resource advantage over the rest of the country.

The main implications for local authorities' tax levels under the new system can be summarised as follows. Local authorities' tax rates under the rating system were in general not affected by the aggregate tax base available to the authority, and were principally determined by spending levels. Consequently, when rates were abolished, local authorities with a large tax base lost no more, taking rate revenue and the resource component of Block Grant together, than local authorities where the tax base was smaller.

On the other hand, since the Block Grant operated so as to equalise tax *rates* for a given level of spending, it had the effect that the average tax *bills* of households were a function of the average domestic rateable value. With the abolition of this system, local authorities where domestic rateable value (and hence rate bills, on average) were low will tend to have higher community charge levels compared with their previous average rate bill and conversely for high rateable value authorities. In particular, there is a substantial regional effect. Under the rating system households in the South would on average have paid substantially more than households in the North as a result of the operation of resource equalisation implicit in the fixing of the grant – related poundage schedule by central government. It follows that the introduction of community charges will end this difference and there will be a redistribution of the burden of local domestic taxation away from the South to the North.

In the long-run, the reasons for differences between authorities in local tax levels under the community charge will be limited to two main factors – differences in local authority expenditure per head and differences in the amount that central government contributes to cover its assessment of the local authority's needs. Table 3.1 below highlights the point that as expenditure per head of population rises above a local authority's standard spending level then the authority's community charge will rise by almost[8] the same amount. Equally, however, changes in the standard spending assessment feed through directly into local tax levels, and, because of the gearing effect, comparatively small percentage changes in the standard spending assessment for a given authority could have a substantial effect on the local community charge. As Smith and Squire (1986) noted, the new system will be one in which the basis of distribution of government grant assumes excessive importance, both in local: central government relations and in public perception of the performance of individual authorities.

Table 3.1

Long-Run Community Charges

	Standard spending level per head[9]	Actual spending per head	Expenditure above standard spending level per head	Long-run Community Charge
Authority X	700	700	0	278
Authority Y	700	800	100	378
Authority Z	800	800	0	278

8 It will not be exactly the same amount because of non-payment.

9 The community charge level would be equal to £278 when a local authority spends at its standard spending assessment level.

Factors influencing community charge levels in 1990/91

The focus of the discussion so far has been on the factors which will affect the long-run community charges, and the long run gainers and losers from the transition from rates to the community charge. The actual community charge levels in 1990-91, and actual changes in local tax bills between last year and this, differ from these long run effects for a number of reasons. We discuss the range of factors affecting the changes between 1989/90 and 1990/91 in this section.

Figure 3.2 shows the range of community charges set by authorities in England and Wales. Ninety five per cent of authorities have set their community charges between £250 and £450, with 60% of authorities falling in the more narrow range of £300-£400. Figure 3.3 compares these community charge levels with the real level of average rate bills per adult in 1989/90 (i.e. after allowing for the effects of inflation at 7.7 per cent). The vast majority of authorities have a community charge greater in real terms than their previous average rate bill. The bulk of authorities have increased local taxes between 1989/90 and 1990/91 by between £50-£150 per capita.

Fig 3.2 Distribution of Community Charge Levels

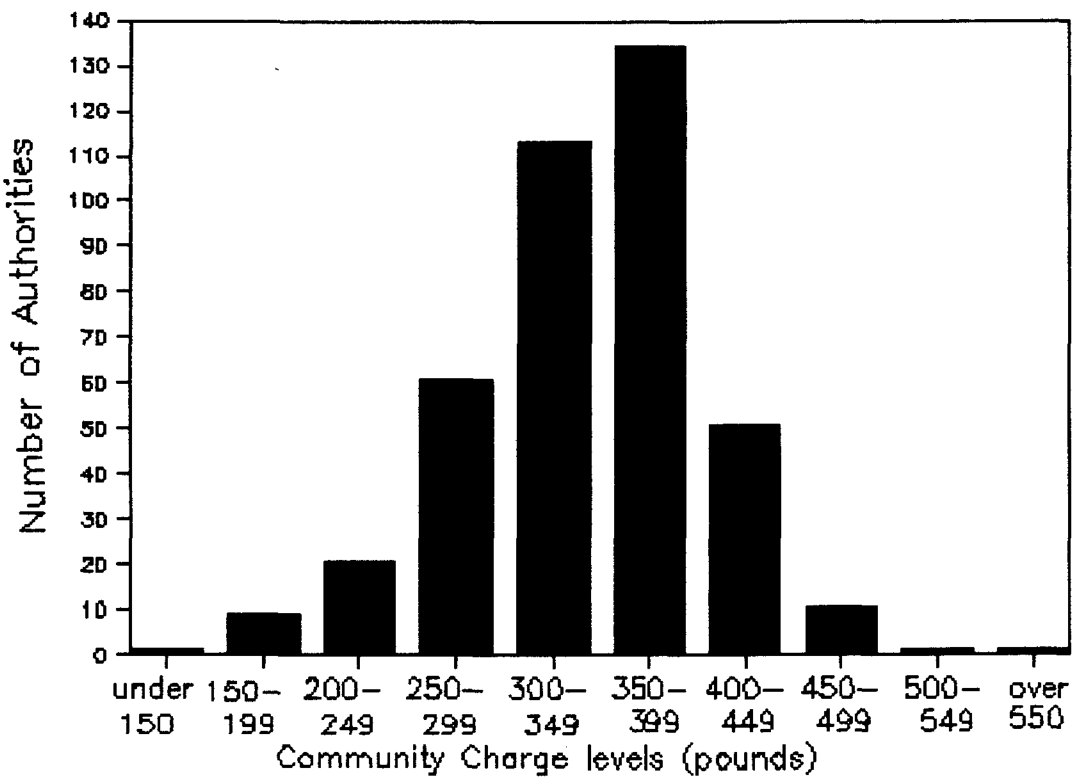
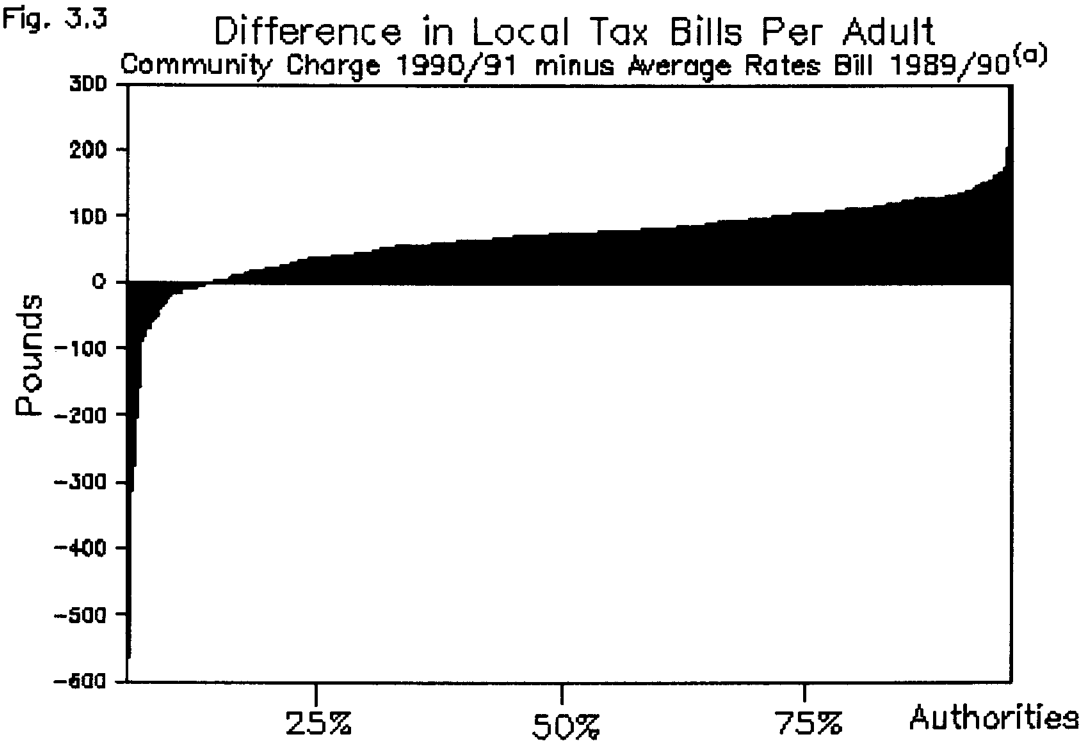


Fig. 3.3



(a) Average rate bills per adult are inflated by 7.7% (see Ch.4)

Figure 3.4 shows the correlation between higher-than-average rate bills in 1989/90 and higher-than-average community charge bills in 1990/90. One reason for the dispersion shown in Figure 3.4 is the effects of the long-run redistribution of the local tax burden away from areas of high domestic rateable value, noted in the previous section. The areas where domestic rateable value was high have tended, as Figure 3.5 shows, to be those experiencing the smallest percentage increases in local taxes per capita between last year and this. However, there are many other factors affecting the change in the burden of local taxes between 1989/90 and 1990/91, and we set out some of the most important below.

Fig. 3.4 Rates bills in 1989/90 and Community Charges in 1990/91 local authorities in England

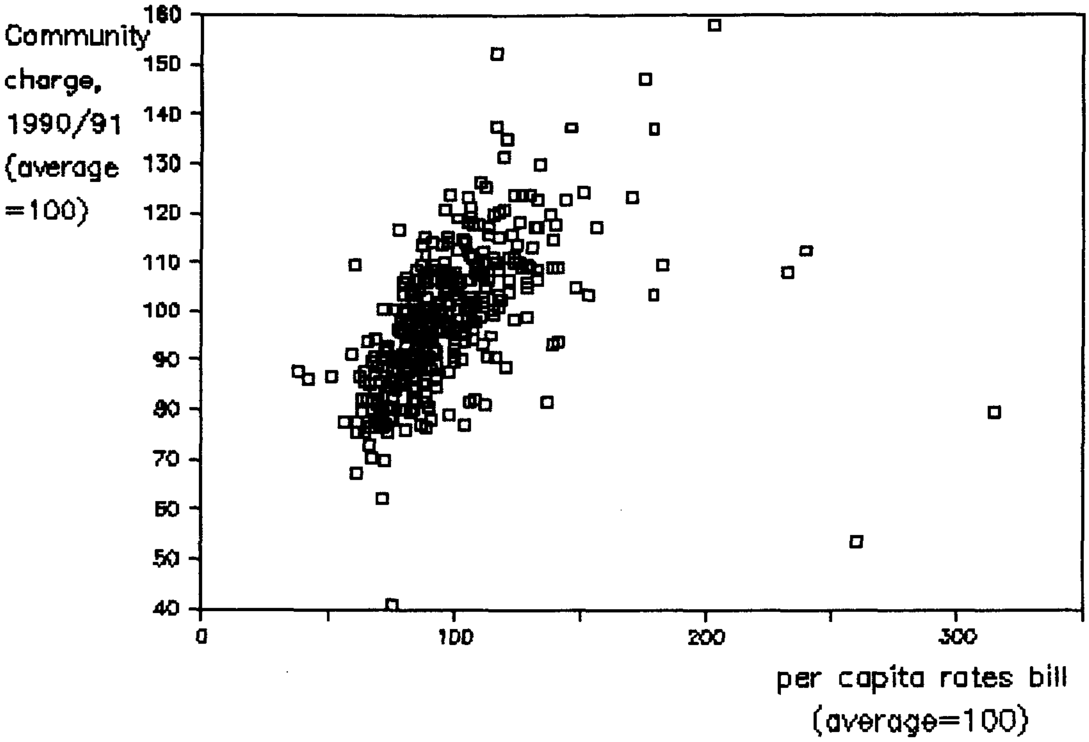
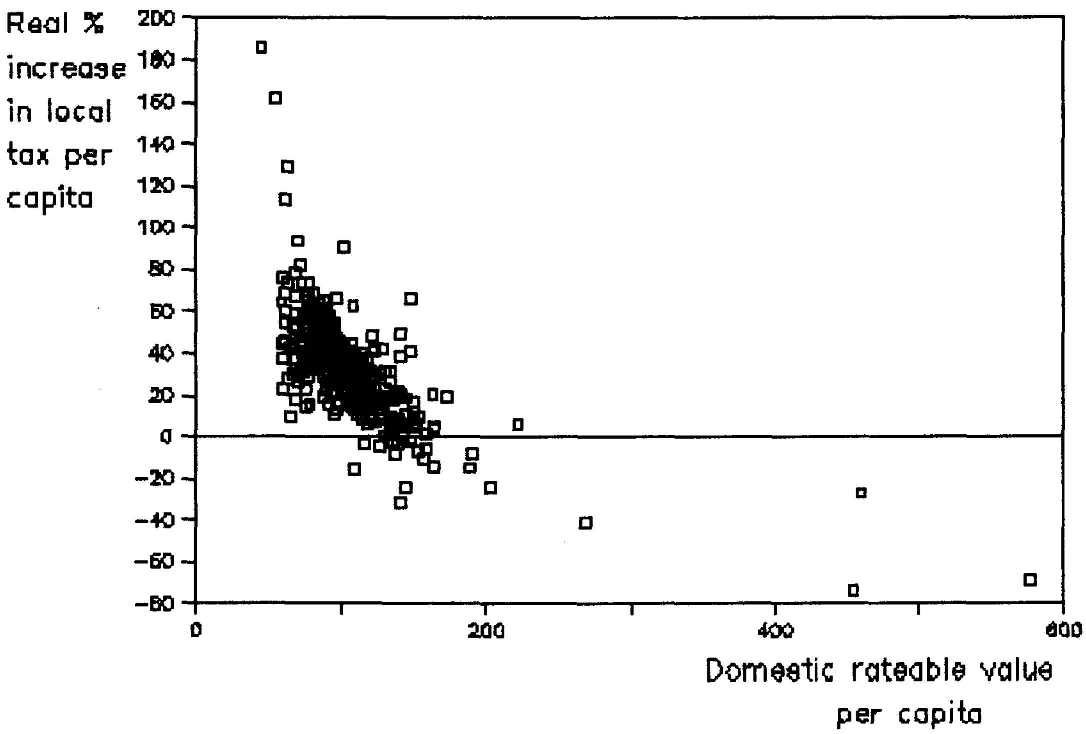


Fig. 3.5 Relationship between increases in local taxation per capita between 1989/90 and 1990/91 and rateable value per capita, local authorities in England



(i) Safety Net arrangements

As a result of the considerable changes that could arise in the amount local domestic taxpayers will have to pay compared with the previous year's average rates bill the Government introduced a transitional scheme which had the aim of reducing the immediate losses of those who will ultimately be worse off. Under these "safety net" arrangements the community charge would only be allowed to rise by a maximum of £25 per adult plus inflation above the 1989/90 average rate bill per adult, *in an authority which spent in line with the government's assumed expenditure levels.* Where, as in most cases in practice, local authority spending rose by more that the government assumed, no greater safety net allowance is paid. In the downward direction the adjustment for each authority is limited to a sum equivalent to a maximum of £75 per adult. The amounts are set so that the safety net scheme will be self-financing. In subsequent years gainers will be able to receive the full amount of their gain, however, the government has stated that finance will be available to keep the losses in line with 1990/91 financial year.

For some authorities community charge levels this year are substantially different from the eventual long-run levels, without the safety net. To give an example, Table 3.2 shows that for Winchester and Scunthorpe district councils their previous average rates bill were very similar. As a result of the ending of resource equalisation, outlined earlier in this chapter, their long run community charges will be substantially different. Nevertheless, the actual 1990/91 community charge figures are in fact very close, largely as a result of the operation of the safety net.

Table 3.2

Safety Net Effects

	Average rates	Safety net[1]	1990/91 Community Charge	Long run Community Charge
Winchester	302	-57	371	314
Scunthorpe	300	52	356	408

[1] contribution (−) receipt (+)

(ii) Housing Revenue Account: Ring Fencing

As a result of the Local Government and Housing Act local authorities are obliged to keep their housing revenue accounts in balance. For a large number of authorities this will mean removing the subsidy provided to the housing revenue account or as was the case for a minority of authorities removing the subsidy of the rates from the housing revenue account. Table 3.3 shows the size of the housing revenue account surplus or deficit in different metropolitan areas, expressed as a percentage of expenditure.

Table 3.3

Housing Revenue Account

1989/90	Expenditure (£m)	HRA surplus (£m)	HRA surplus as percentage of expenditure
Inner London	1442	-261	-18%
Outer London	2698	27	1%
G. Manchester	1564	-19	-1%
Merseyside	886	13	2%
S. Yorkshire	734	35	5%
Tyne & Wear	663.5	16	2%
West Midlands	1543.3	50	3%
West Yorkshire	1144	13	1%

On average, community charge payers in inner London are likely to benefit more from the ring fencing of the housing revenue account than elsewhere. Subsidies from the general rate fund to the housing revenue account were substantial in a number of inner London authorities. In which direction community charge payers will benefit from the removal of the subsidy is unknown, given local authorities may choose to increase spending or reduce their community charge levels. A further alternative is that a number of authorities may decide to test what some commentators have described as ambiguities in the legislation by keeping some areas of what may previously be regarded as housing expenditure outside the ring fence. These might, for example, include general staff training for housing staff, various central services and services also provided to private tenants such as housing advice etc. It is clear, however, that the movement to ring fencing in the current year will make it even more difficult to determine the full impact of expenditure levels on the community charge.

(iii) Standard Spending Assessments

The move from assessing needs in terms of grant related expenditures to standard spending levels will also have an impact on community charge levels. The general principle of compensating authorities for differences in the structure of their population and other factors likely to give rise to differences in the "need" for spending is the same as that underlying the previous system of "grant-related expenditure assessments". However, in a number of detailed respects the new standard spending assessments differ from the earlier grant-related expenditure assessments; there has been an attempt to simplify the system, and the precise indicators of need are different. This means that for any individual authority the new SSAs may give a larger or smaller entitlement to grant than the previous GREAs. These grant changes, as we have already noted, feed through directly to community charge levels.

(iv) Creative Accounting

A further element which will have an impact on community charge levels is the unwinding of creative accounting measures. During the 1980s a number of authorities attempted to assist their financing of expenditure by, for example, shifting expenditure between financial years, lease-back arrangements, loan swapping etc. As a result of legislation and court judgements local authorities are restricted in the use of these practices, and therefore there will be an impact on community charge payers.

(v) Provision for Non-Payment

There has been some public discussion of the extent to which local authorities will be able, in practice, to obtain payment of the community charge from all of those liable to pay. Two reasons may be expected for some shortfall below the theoretical total revenue this year. Firstly, the community charge is likely to prove dificult to collect fromn some individuals, especially those who move, except at substantial cost. All local authorities will probably have to write off some revenue for this reason, although it is difficult to assess in advance how large the problem will be, or how different authorities will be affected. Secondly, particularly in the first year, there is likely to be some revenue shortfall, reflecting non-payment by those who refuse to pay. Scottish experience of non-payment suggests that some revenue shortfall should be expected for one or other of these reasons. Many local authorities have set their budgets on the basis that they will experience a shortfall of some 5 per cent; provision for this feeds through directly into the level of community charge that they have to set.

(vi) Increases in Spending

In addition to the above non-expenditure effects on community charge levels there will be effects from actual changes in spending by local authorities. One reason for an increase in spending will be related to local authority inflation, i.e. the additional amount authorities need to spend on their wage bill etc just to keep services provision at the same level as in the previous year. Some commentators have assessed local authority inflation to be slightly higher than retail price inflation and a consensus figure appears close to 8.5%.

Although the aggregate exchequer contribution to local authorities is close to this figure, the government's calculations of standard spending were based on a lower inflation assumption, of only 4.76 per cent. This underestimate of inflation has distorted the grant allocation to individual authorities[10], and has had in particular the effect of bearing more heavily on those entitled to larger grant.

Changes in the level of local taxation may also reflect decisions by local authorities to to increase expenditure in real terms above that of the previous year, ie. to increase service provision above the level of the previous year. Alternatively authorities may have reasons for increasing their reserves in the face of uncertainty in this particular year. In Scotland, Gordon Hughes has argued that the change in system gave local authorities scope to raise more revenue, whilst deflecting blame for the higher levels of local taxation. "It is sensible for local politicians to view a change in the tax base as offering an opportunity to implement a significant increase in the general level of taxes. The political costs of such an increase will be lower than normal because the responsibility of the change can be shifted to central government or because the electorate may not perceive the extent of the increase" (Hughes, 1989, p6).

All the arguments above suggest that the total muddying of the waters as a result of the implementation of the new system will have an effect on community charge levels. It is the government's aim that the new system will have an effect on local authority decisions. It seems, however, that it is far too early to judge the long-run effect of the community charge. It is almost certain that future spending decisions are likely to be made on different criteria than that of the first year. Nevertheless, it is difficult to say yet whether authorities will feel any more constrained than they felt under the rating system. The grant system under the rates was set such that there were a number of spending disincentives already. Further, it will be impossible to disentangle the effects on spending from the introduction of the community charge and the removal of varying business rate poundages. In effect we are unable to identify whether the removal of varying rate poundage was a large enough disincentive in itself on the expenditure decisions of local authorities.

In this chapter we have set out the actual community charge levels set by authorities in April 1990/91. The reason that community charge levels in the long run may not bear any significant relationship to average rate bills in the past is related primarily to the removal of the resource equalisation scheme. The community charge levels set this year are blurred by a large number of factors which can be described as non-expenditure effects on the community charge levels. Nonetheless, long-run community charge levels do show that some relationship exist between high/low levels of expenditure per head and relatively high/low levels of the community charge.

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10 It is also responsible for the widely-criticised figure of £278 for the community charge at standard spending.

Community charge capping

The Government's justification for the introduction of the community charge is that it would make local authorities far more accountable to local residents. If local authorities decided to spend at high levels then with business rate income and grant income fixed, the higher spending translates into higher community charges. It was argued by the Government that with the majority of the local electorate receiving a community charge bill, voters at local elections would make a judgement on whether they were satisfied or not with the level of local spending.

Nevertheless, the Local Government Finance Act 1988 set out conditions whereby the Secretary of State at the Department of Environment could cap certain local authorities that are "spending excessively" or whose spending represents an "excessive" increase over the previous year. The Act states that local authorities that budget at less than £15m cannot be capped. Those authorities that are chosen for capping will be informed after they have set their budgets. Capped authorities then have a period of 28 days where they can challenge the spending limit imposed by the Secretary of State. Once a final spending limit is confirmed local authorities then must implement the spending limit within 21 days. What the 1988 Act does not do, however, is set out a criterion for overspending. This is determined by the Secretary of State.

On Tuesday April 3rd 1990, Mr Patten the Environment Secretary, set out the following criteria for community charge capping: an authority will be capped if it both

(a) budgets at 12½% above its standard spending assessment, and also,

(b) budgets £75 per adult above the standard spending assessment.

However, of the authorities that fall within the criteria set out in (a) and (b), those authorities whose budget is less than £26 per adult above the higher of either (a) or (b) will not be charge-capped.

Inner London authorities are treated as a special case. Before their budgets are compared against their relevant SSAs there is a deduction from their budget of an amount equal to their Inner London education grant entitlement. Thus, for example, Lewisham which passes the above criteria, escapes capping when its Inner London education grant entitlement is taken in consideration.

Table 3 shows the authorities facing community charge capping in 1990/91. The Secretary of State has set out the reductions required in the authorities' budget. As stated earlier authorities have 28 days to appeal against these reductions, at the end of the that period the Secretary of State is free to increase, reduce or keep at the same level the required reduction in the authority's budget[11].

Table 3.
The authorities selected for community charge capping.

1990/91	Percentage spending above SSA	Spending above SSA, £ per adult	Budget, £m	Proposed cap, £m	Difference, £ per adult
Avon	13.4	117	533.7	507.1	37
Barnsley	26.6	144	142.0	132.0	59
Basildon	194.3	154	27.9	23.7	35
Brent	16.1	178	249.3	241.7	39
Bristol	96.3	108	64.2	56.6	26
Calderdale	20.9	160	132.9	125.4	52
Camden	19.9	232	181.4	177.0	34
Derbyshire	25	157	560.6	520.6	56
Doncaster	19.9	144	190.1	178.5	53
Greenwich	39.2	387	213.0	203.0	65
Hammersmith & Fulham	26.6	297	167.5	155.8	99
Haringey	29.8	351	216.5	206.5	71
Hillingdon	20.0	143	151.0	141.7	53
Islington	19.8	251	189.5	185.8	30
North Tyneside	13.8	136	129.7	122.9	45
Rochdale	13.3	152	152.0	144.0	51
Rotherham	19.5	134	165.4	157.5	39
St Helens	16.2	130	126.7	122.8	29
Southwark	24.8	290	241.0	226.9	86
Wigan	21.1	151	200.6	190.6	43

11 At the time of writing, the consequences for local authorities' community charges of capping had not yet been determined; the figures used throughout this report are based on the budgets set by authorities before the capping announcement.

Chapter 4

THE COMMUNITY CHARGE AND HOUSEHOLD TAX PAYMENTS

In the previous chapter we discussed how the reforms to local government finance have affected the financial resources of different authorities and the levels of local tax set. In this chapter we look at the other principal redistribution arising from the reforms – the redistribution of tax payments between households. We analyse this in a number of ways.

The estimates in this chapter are based on a comparison of rates payments last year with the community charge payments this year. We do not speculate on the level of rates which would have been charged in 1990/91 if the rating system had remained in place. As we have shown in the previous chapter the wide range of factors influencing changes in local tax bills since 1989/90 means that to isolate the effects of the switch from rates to community charge is an extremely speculative, and unreliable, exercise. However we have, in making our comparisons, adjusted for the effects of general inflation using an annual inflation figure of 7.7%[12].

The estimates in this chapter are produced using the IFS Tax and Benefit model. The IFS model has calculated the effects of the current change in the local tax burden on a large representative sample of households. The data on households which underlies the Tax and Benefit model is drawn from the Family Expenditure Survey (FES), an annual survey conducted by the Office of Population Censuses and Surveys which gives detailed information on household expenditures, incomes, and other characteristics[13]. Using this data and the IFS Tax and Benefit Model we are able to show changes in households' *net* payments of local taxes, after taking into account any local tax rebates to which members of the household may be entitled. The model allows us to show these changes in local tax bills in 1990/91 over different household types and income groups.

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12 This is the inflation figure used in the Budget for the uprating of benefits, tax allowances etc.

13 FES data are made available to us on an anonymised basis, and are used by permission of the Department of Employment; we alone are responsible for their analysis and interpretation.

Household composition

Under the rating system a household's rate bill was based on the rateable value of domestic property it occupied. The change in local government finance has meant that local taxation is now based on the number of adult household members. Other things remaining equal we would expect single-adult households to gain at the expense of multiple-adult households. Households containing two adults have tended, in revenue – neutral simulations of the introduction of the community charge such as those of Smith and Squire (1987), to pay on average roughly the same under the community charge as under rates. The calculations shown here, however, allow us to assess the gainers and losers from the actual changes between 1989/90 and 1990/91, rather than simply from revenue neutral changes.

Table 4.1 highlights the difference between the average community charge bill in 1990/91 and average rates bills in 1989/90 for different household types. As described above, the 1989/90 rate bills have been increased in line with the inflation figure of 7.7%. As expected Table 4.1 shows that single – adult households have gained, by on average 21%. On the other hand under the first year of the community charge households with two-adults tended to see their local tax bills rise by 26% on average. Multiple-adult households have experienced even more substantial increases in local taxation. Table 4.1 shows that multiple-adult households will on average pay £15.24 a week in the first year of the community charge compared with an on average figure of £8.41 in rate bill payments in 1989/90. In other words, households with more than two adults are on average facing real increases in their local tax bills of 81% i.e. close to £7 a week.

Table 4.1

£ per week	Household composition		
	Average rate bill 1989/90	Average Community[14] Charge Bill 1990/91	Percentage difference
Single-adult household	£4.90	£3.86	-21%
Two-adult households	£9.11	£11.50	26%
Multiple-adult households	£8.41	£15.24	81%

14 Not including transitional relief payments

Rateable Value Effects

The move from a tax based on rateable value to a tax based on individuals paying equal amounts in local tax has further implications in relation to what can be termed as "rateable value effects". Households with high rateable values, and therefore high rate bills, will tend to gain at the expense of households paying rates on lower rateable value properties. Partly, as we discuss below, this may be related to income since on average wealthier households tend to live in more valuable houses.

Table 4.2

Regional Differences

	Average domestic rateable value per adult, 1989/90	Average rates bill per adult, 1989/90, increased by 7.7 per cent	Average Community Charge, 1990/91	Increase in local tax per adult, in real terms, 1989/90 – 1990/91	Average long-run Community charge
South East (not including Greater London)	£122	£323	£368	45	£327
South West	£93	£257	£359	102	£357
East Anglia	£100	£263	£337	74	£323
East Midlands	£89	£261	£365	104	£375
West Midlands	£100	£276	£373	97	£350
North	£76	£244	£340	96	£406
North West	£93	£276	£384	108	£388
Yorkshire & Humberside	£74	£244	£322	78	£381
Greater London[15]	£159	£381	£353	–28	£401

In addition however the rateable value effects include a regional redistribution with a shift in local tax liability from the south of the country (where property values are higher) to the north. In Chapter 3 we outlined the way in which under the rating system Block Grant was used to equalise resources. The main impact of resource equalisation was that for a given level of local spending all local authorities should have been able to charge the same poundage (ie the same tax *rate* applied to rateable values). It follows, therefore,

15 London loses in the long-run due to the removal of a specific resource equalisation measure within the region.

that under the rating system a household with a given level of income in the north where the rateable values of properties are, on average, lower would have paid substantially less in local tax, at a given level of local spending, than a household with the same income level in the south. Under the community charge this difference ends.

To highlight these points Table 4.2 shows the average domestic rateable values in different regions, the average rates bill per adult in 1989/90 and the average community charge in 1990/91. Further, Table 4.2 identifies the average long run community charge levels – i.e. disregarding the first year safety net receipts and contributions[16].

Table 4.2 shows that in the long run the northern parts of the country will take a greater share of the local tax burden than under the rating system. In effect the rating system had a large element where resources on average were redistributed to the areas of lower aggregate domestic rateable value from the areas of higher aggregate domestic rateable values. This is entirely removed under the local government finance reforms.

Income Redistributive Effects

In this section we consider how the changes in local government finance have been related to household income. Before considering the income effects of the community charge in detail we examine, for comparative reasons, the relationship between rate bills and household incomes. Across the income distribution, rateable values tended to rise with household income, but not proportionately (Smith and Squire, 1987, p23). So although households with higher incomes paid, on average, higher rate bills, the share of income spent on rates (net of rebates) fell as household income increased, as Figure 4.1 shows. Figure 4.2 shows a similar diagram for the community charge. Again the proportion of income paid in local tax by households falls as household income rises. Clearly, both the rating system and the community charge are regressive.

In both cases a lot depends on the form the benefit system takes. Until 1988 individuals whose incomes fell below their relevant income support threshold were entitled to 100% rate rebates. Since 1988 rebates can be no greater than 80% of local tax bills. The introduction of the 80% rule probably has a greater effect on the distribution of tax payments across income graoups than the change from rates to the community charge.

16 Also in the case of Inner London Authorities we have removed their specific grants for 1990/91.

Fig. 4.1

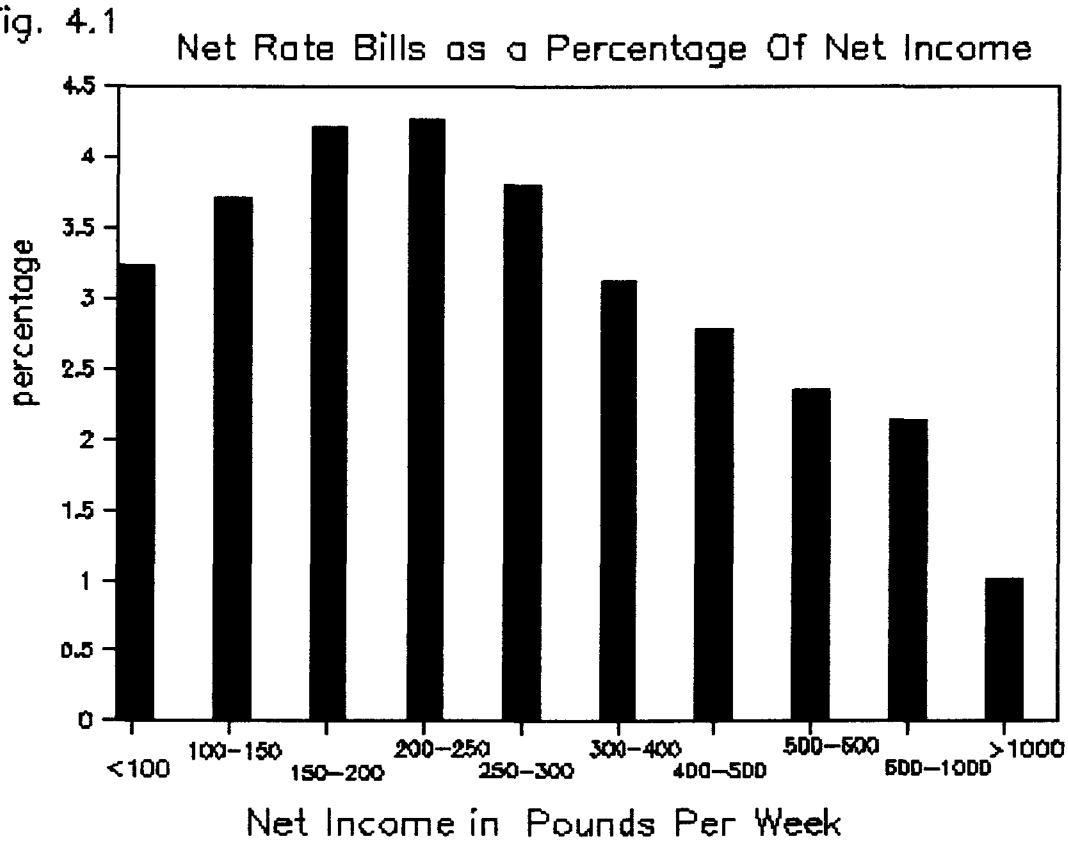
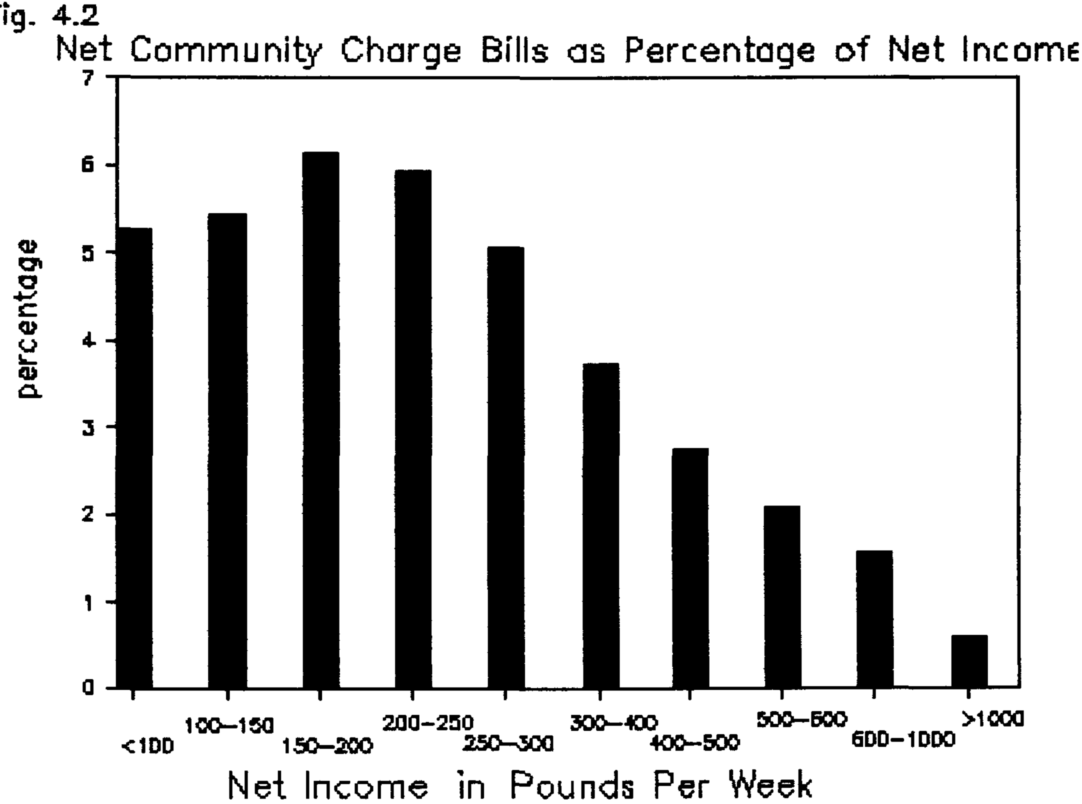

Net Rate Bills as a Percentage Of Net Income
percentage
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
<100
100-150
150-200
200-250
250-300
300-400
400-500
500-600
600-1000
>1000
Net Income in Pounds Per Week

Fig. 4.2


Net Community Charge Bills as Percentage of Net Income
percentage
7
6
5
4
3
2
1
0
<100
100-150
150-200
200-250
250-300
300-400
400-500
500-600
600-1000
>1000
Net Income in Pounds Per Week

In the following we look at the distribution of actual local tax changes between 1989/90 and 1990/91. Already we have suggested that individuals in high rateable value properties are more likely to gain with the introduction of the community charge and those in low rateable value properties are more likely to lose. It was also suggested that at least a weak correlation exists between the size of rateable values and household income and thus households in higher income groups will benefit more from the reforms. The supposition about gainers and losers ought to be qualified however. For example, it is quite possible that a household is in a high income group simply because it has more than one income earner. Therefore, the assessment of the distributional effects of the swithch from rates to the community charge must take account of household composition as well as income. The use of ranges of equivalised net household income, i.e. an income concept which takes into account the size of the household, adjusts for this problem.

Table 4.4

Gainers and Losers
Households gaining and losing after moving from paying rates in 1989/90 to paying the Community charge in 1990/91. (Pounds per week)

Ranges of equivalent net household income (pounds per week)	1989/90 Average rates bill (£p.w.)	1990/91 Average Community charge (£p.w.)	Difference between 1989/90 and 1990/91 local tax bills
under £100	2.82	4.12	1.30 (46%)
£100-£150	5.05	7.10	2.05 (41%)
£150-£200	8.09	11.93	3.84 (47%)
£200-£250	9.82	13.67	3.85 (39%)
£250-£300	10.46	13.62	3.16 (30%)
£300-£400	10.62	12.88	2.26 (21%)
£400-£500	12.60	12.27	-0.33 (-3%)
£500-£600	12.25	11.76	-0.49 (-41%)
£600-£1000	14.90	10.86	-4.04 (-27%)
over £1000	16.18	9.68	-6.5 (-40%)

Source: IFS Tax/Benefit Model.

In Table 4.4 we examine the changes in average local tax bills between 1989/90 and 1990/91 across a wide range of income groups. As mentioned earlier, to get a clearer picture of the extra expenditure by households in 1990/91 on local taxes compared with 1989/90 we have assumed that all other factors which influence household incomes and expenditures have remained constant – again 1989/90 rate bills have been uprated in line with an inflation rate of 7.7% to get an indication of the real gains and losses faced by households. Table 4.4 shows the distribution across household income groups of rate bill payments per week in 1989/90 and Community charge payments per week in 1990/91.

Households with incomes less than £400 per week will on average pay more in local tax in real terms in 1990/91. Those households with incomes over £400 per week will on average pay less. The hardest hit in absolute terms are households that fall within the income range £150 to £300 a week – households within this income range lose out by approximately £190 a year on average. These middle-income households are hardest hit because they are less cushioned from the changes in local taxation by the rebate system. The biggest gainers are households with net incomes greater than £600 per week. Households within the £600 to £1000 per week net income group would on average gain £210 a year.

Averages tend to conceal important characteristics of the actual data. Table 4.5 identifies at a more disaggregated level the distribution of gainers and losers within income groups.

In Table 4.5 we can see that only 10% of households with very low incomes per week are likely to feel better off this year when paying their community charge bills. The majority of low income households will be worse off in real terms. Table 4.5 shows that over 50% of middle income households, i.e. in the income groups ranging from £150-£300 per week will find their new income falling by between 1% and 5% a week. Higher income groups tend to have proportionately more gainers than losers than in the other income groups, although the bulk of high income households are in the "change of less than 1% column". The main reason why higher income groups tend to fall in the "small percentage change" column is that although average net income gains or losses may be substantially higher for higher income groups relative to lower income groups, the size of these gains or loses will probably be quite small compared with the levels of net income within these high income ranges.

In summary, this chapter has outlined the factors affecting the redistribution of the local tax burden between households. Our main conclusions are:

(i) Single-adult households' average community charge bills will be lower in real terms in 1990/91 compared with average rate bills in 1989/90.

(ii) Two-adults households, will be paying more in local tax in real terms in 1990/91. The IFS model estimates that these households will be paying on average an additional £124 per year in local taxes.

(iii) Multi-occupied households will pay substantially more in real terms in 1990/91.

(iv) Regionally, there will be a shift of the domestic local tax burden away from the south towards the north in the long run.

(v) Household with incomes less than £400 a week on average lose out by close to £190 a year.

Table 4.5

Percentage of households gaining and losing in terms equivalised net weekly incomes

	Households gaining		Households whose tax bill changes by more/less than 1% per week	Household losing	
	more than 5%	between 1% and 5%		between 1% and 5%	more than 5%
Under £100	1	10	36	51	2
£100–£150	2	13	40	39	6
£150–£200	2	11	27	52	7
£200–£250	2	12	31	54	2
£250–£300	0	13	35	50	0
£300–£400	0	16	47	36	0
£400–£500	1	27	53	18	0
£500–£600	0	42	58	21	0
£600–£1000	1	33	65	1	0
over £1000	0	25	75	0	0
All households	1	13	37	44	4

(vi) Households with income greater than £400 a year gain, and for wealthy households with income greater than £600 a year average gains are over £200 a year.

(vii) Overall there are at least three times as many households paying more in local taxes in real terms in 1990/91 compared to 1989/90 than households paying less.

Chapter 5

NON – DOMESTIC RATES REFORM

In Chapter 1 we stressed the importance of the changes to non-domestic rates within the Government's current reforms of local government finance. The Government's view is that the new uniform business rate will increase financial accountability, since the cost of any additional expenditure by a local authority has to be borne entirely by local domestic tax payers. Since the business tax rate is set by central government, local spending decisions have no effect on the level of business rates. It is argued that economic distortions will be relatively fewer and international competitiveness will no longer be affected by authorities imposing high rates upon businesses. In addition businesses are expected to benefit from the increased certainty about the level of future rate bills given by full indexation in relation to the Retail Price Index. The provision for more frequent and regular changes in rateable values is further intended to improve the predictability of the burden on non-domestic rates.

One of the main problems with the old business rate system was that the tax base – the net rental value of business premises – had not been revised in England and Wales since 1973 and was therefore seriously out of date, not merely in terms of the average value, but – more importantly – in terms of the relative values of different properties. The greater growth in prosperity in the southern parts of Britain had led to the burden of non-domestic rates falling too severely on business in the North and in the Midlands. Within regions the decline in traditional industries and the growth in service industries was also not reflected in net-rental values; application of accurate values would therefore require some redistribution of the rate burden across sectors as well.

Since this year, uniform non-domestic rate poundages have been set within the territories of England and Wales but at a different rate in England from that in Wales. Legislation in Scotland introduced the community charge and the new grant system a year earlier in April 1989. In contrast to England and Wales, a revaluation of business (and domestic property) had taken place in Scotland in 1985[17]. Moreover, in the 1989 reforms business rate poundages in Scotland were simply "frozen", without the introduction of a uniform poundage, but since April 1989, business rate bill increases are constrained to increase in line with the Retail Price Index. The Government has announced that it aims to achieve a common non-domestic tax rate across Britain over the next 5 years.

17 Scotland also had a revaluation in 1978.

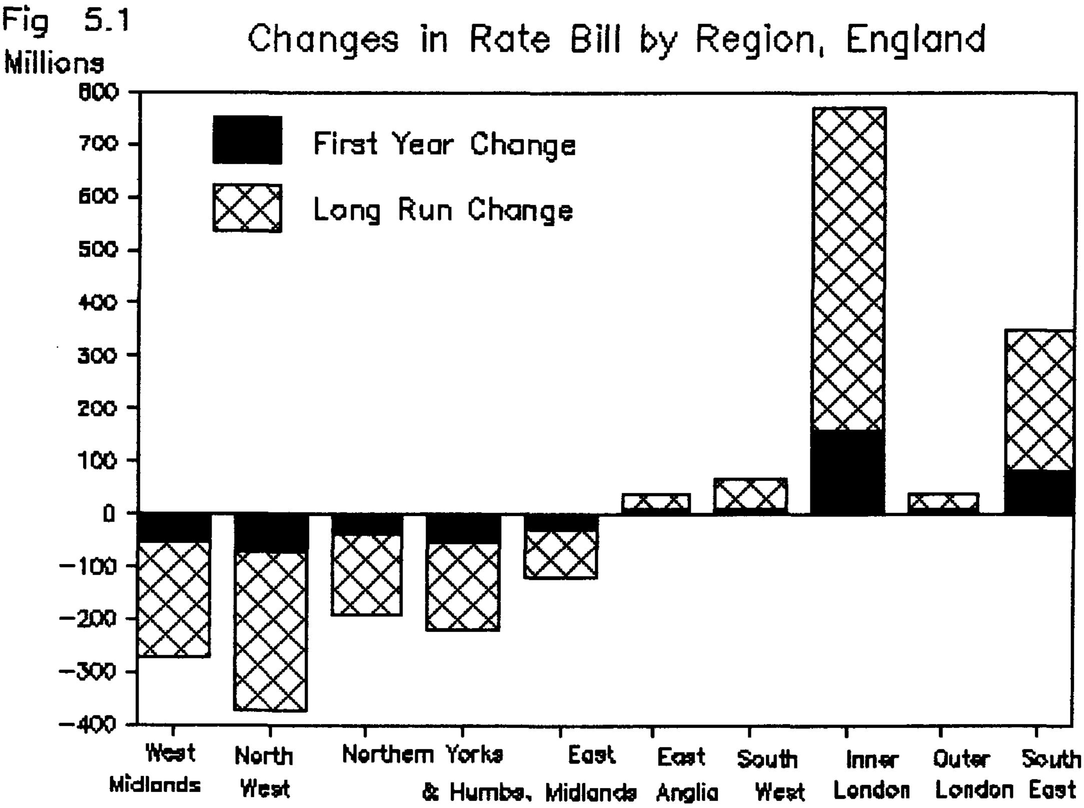
In January 1990 the Inland Revenue published the results of the revaluation for England and Wales effective from April 1990. Once the new rateable values were known the Government was able to determine the uniform business rate poundage for each territory. These were set at 34.8p and 36.8p in the pound for England and Wales respectively keeping the revenue from business rates in each territory in 1990/91 equal in real terms to the yield from non-domestic rates in 1989/90.

The major features of the new business rate system will mean a significant shifting of the burden of rates both regionally and sectorally. Figure 5.1 depicts the burden of taxation moving southwards towards East Anglia, the South East and the South West and away from the traditional industrial areas of the North and Midlands. In addition to highlighting the full effects of the 1990 changes, Figure 5.1 also shows the smaller impact of the changes on each region in the first year after taking into account transitional arrangements.

Transitional arrangements have been implemented to soften the sharp rises in business rate bills. Over the next 5 years many businesses will face increases no greater than 15 % a year plus inflation. The increases of the largest businesses – those with rateable values above £15,000 in London and £10,000 elsewhere in England and Wales – are capped at 20 % in real terms. The transitional arrangements are self-financing i.e. the costs are being financed from those businesses that gain. It follows that some businesses expecting large reductions in rate bills will also be limited in the amount they gain in the current year and subsequent years of transition. In 1990/1 the limits on reductions for the majority of businesses will be 15.5% in real terms on businesses with rateable values at £10,000 or below – £15,000 or below in London – and 10.5% in real terms for larger businesses. Figure 5.1 indicates that gainers will on average get approximately 25% of their overall benefit in the first year and losers will tend to find increases in rate bills in the order of 20% of the increase excluding transitional arrangements. In summary, losers' rate bills will on average rise by just over 5% in the first year and gainers (excluding the central list properties) will find rate bills on average falling, by 4.6%.

After the transitional arrangements have worked through, the rate burden on businesses in the North and Midlands will be reduced by nearly £930m at current prices – close to 25% of their 189/90 rate bill. An important aspect of the interim arrangements is that the transitional arrangements apply only to existing businesses in situ and not new property or any business moving after April 1st. The impact on new or transient businesses could be substantial. For example, if a shop within inner London moves to new premises within the area it leaves itself open to significant rate bill increases. Thus, the transitional arrangements could have an impact on businesses decisions: from April they may significantly discourage turnover of business property in the South.

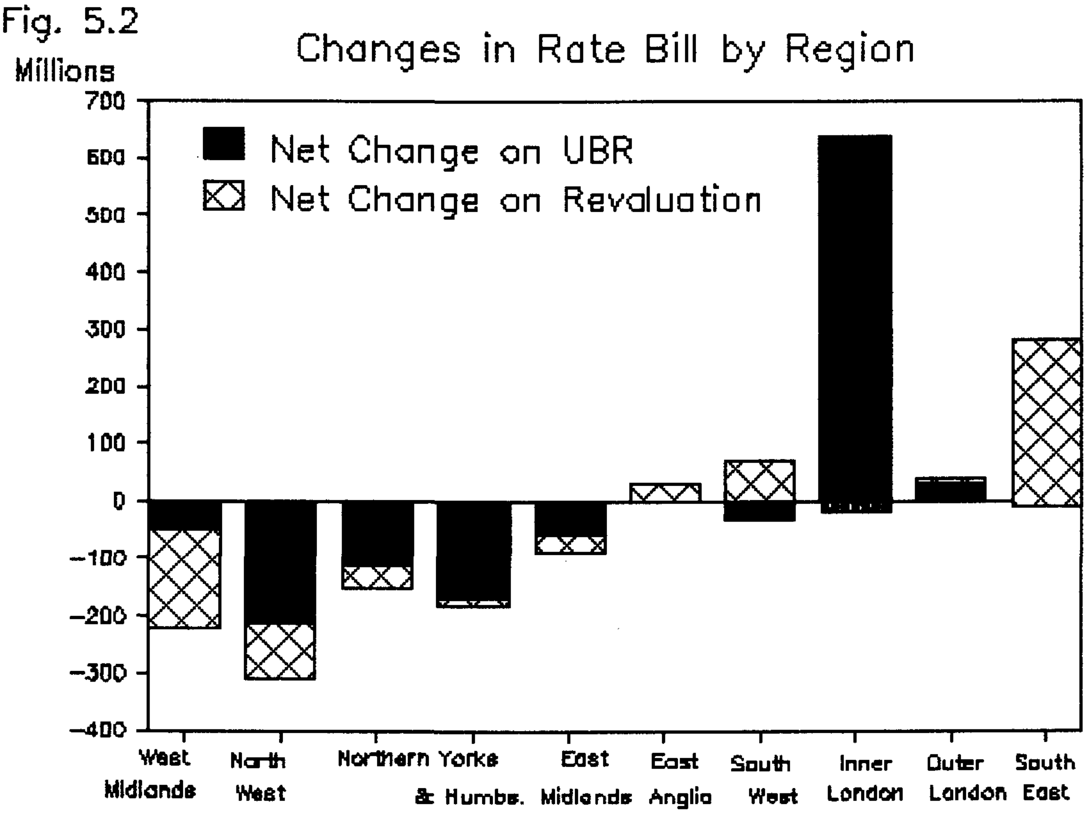
Fig 5.1



The impact of the change in non-domestic rates can be split into two components: a property revaluation effect and changes as a result of implementing the uniform business rate. Figure 5.2 shows that if we omit London then in general the redistribution of the burden of rates to a large extent reflects the change in property valuations. Concentrating on inner London it can be observed that rate bills have risen by £610m (37%) which is by far the largest increase relative to other regions. The Inland Revenue calculated that the uniform rate poundage is the reason why inner London business rate bills rise sharply; revaluation alone has a small negative effect. The component effects are simply calculated by firstly computing the uniform rate poundage effect by multiplying the old rateable value of a given region by the national average rate poundage which in 1989/90 was 258p in the pound. The difference between the notional revenue raised from applying the average rate poundage and the 1989/90 rate bill for the region determines the uniform rate poundage effect. To calculate the revaluation effect we calculate the 1990/1 rate bill using the revalued rateable values and the uniform rate poundage (34.8p in the pound). The difference between the 1990/1 rate bill and the 1989/90 notional rate bill determines the revaluation effect, (see appendix C).

In addition to the revaluation reflecting the increase in prosperity in regional terms it is also possible to identify a sectoral shift in the incidence of rates within regions. Declining industries − mainly in manufacturing − which utilise factories and warehouses are set to gain in terms of rate bill reductions whilst businesses in the growing service sector lose. Table 5.1 indicates that in general the picture across the country is that on average factories and warehouses

Fig. 5.2



will have reduced rate bills everywhere except in inner London. Even taking into account the sectoral shifts in the rate burden, shops and offices in the North will still tend to face on average lower rate bills than elsewhere.

Table 5.1

Long Run Changes in Rate Bills in England and Wales

Property Types	Factories %	Warehouses %	Shops %	Offices %	Other properties[1] %
Region					
West Midlands	-47	-40	-15	-24	+5
North West	-47	-44	-16	-36	-4
Northern	-49	-50	-15	-38	-19
Yorkshire & Humberside	-38	-36	-5	-27	-8
East Midlands	-35	-24	-3	-22	+12
East Anglia	-12	-7	+29	+5	+33
South West	-16	-10	+32	+10	+24
Inner London	+5	+13	+72	+22	+95
Outer London	-20	-15	+24	-1	+28
Rest of South East	-13	-2	+31	+28	+36
Wales	-27	-16	+20	-2	-9

[1] Includes public buildings etc.
Source: Inland Revenue

The numbers of businesses experiencing major changes in the long-run rate burden (after excluding the effects of transitional arrangements) are substantial. As Table 5.2 shows, some 16 per cent of companies face an increase in rate bills of 100% or more. Table 5.2 indicates that losing firms (facing increases in rate bills) tend to have larger percentage changes than gainers. However, this generally reflects the fact that gainers previously had on average significantly lower rate bills[18].

There are a number of rating reliefs. Statutory reliefs include a 50% rate reduction for an empty property (except those that are exempt) and an 80% reduction for charities. In addition authorities can entirely write off rates for charities, non-profit making organisations and on non-domestic ratepayers experiencing "hardship"[19]. The costs of statutory relief are fully borne by the non-domestic rate pool. Discretionary relief allowed by authorities will be financed partly by non-domestic rate pool and partly by community charge payers.

Table 5.2.

Redistribution of Rate Burden in England and Wales

	Number of properties thousands
Increases	
5-50%	390
50-100%	230
100% or more	240
Decreases	
5-50%	450
50% or more	110

There have been a number of criticisms of the government's reforms of business rates. The business community has particularly voiced concern in relation to the effects of the national non-domestic rate on business costs and hence prices in the current year. It has been argued that the introduction in April was "poorly timed", given current business conditions, although this criticism surely neglects the long lead time necessary in any major reform of this sort.

18 This point is simply a matter of arithmetic. Consider two businesses, one with a rate bill of £200 and the other £100 before the introduction of the new system, and both facing rate bills of £150 after. One loses £50 and the other gains an equal amount, but the loser pays 50 % extra, whilst the gainer has a reduction in rates of only 25 %.

19 There is no statutory definition of "hardship" and it will be interesting to see how the concept is interpreted.

The business rate reforms would not be expected to affect prices in the long run; the overall level of local business taxes is intended to remain unchanged, although the distribution between different businesses will change. However, if in the short run there is an asymmetric response in terms of price adjustment – i.e. losers increase prices by the full amount of the rate increase and gainers do not adjust prices – then taking into account the transitional arrangements there could be an effect on the RPI of up to 0.3%. However the maximum figure is unlikely to be achieved if the retail market is weak, in which case the impact of higher rate payments would at least partly be absorbed by firms through lower profits or by their landlords through lower rents.

Leaders of small businesses have argued that up to 40,000 businesses will cease trading (Financial Times, 4th January 1990). Predictably losers have argued that either the transitional period should be extended or that additional funds from the Treasury should be provided to give more assistance to losers over the transitional period. From the alternative view there have been complaints by gainers who argue that the South has been subsidised for years as a result of the distorted valuations. Thus, an "inherent unfairness" is perceived in the self-financing transitional arrangements which slow the adjustments to the new values, and reduce significantly the gains and losses for businesses in the North and South respectively (Financial Times, 16th January 1999).

Further aspects of the move to a uniform business rate concern the relationship local authorities have with the business community now that authorities no longer set the tax rate on business, and receive revenues from the non-domestic rate allocated by central government on a per capita basis. It has been argued that local authorities may now be less disposed towards attracting commercial activity or to encourage local businesses to expand and develop within the authority. Hepworth has pointed out that "local authorities may be less willing to give planning permission for environmentally difficult projects because they get no direct financial benefit from such developments" (Hepworth, 1987, p87). It was noted in Chapter 3, however, that the relationship between business decisions and local revenues has always been weak, even under the rating system, because of the operation of the Block Grant system. If more business is attracted into the area the authorities' rate income would rise; however, in most cases there would be a corresponding fall in Block Grant[20]. Thus, in the past, just on the basis of rate revenue grounds there was no particular incentive for authorities to try and attract business. The most significant change in the local authority relationship with business is in fact not related to the tax base at all, but to the central control of the poundage; local business leaders may now be considerably less interested in local affairs, now they do not pay a locally determined tax rate.

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20 This is not true of course for authorities who had increased expenditure to levels where they exhausted their block grant marginal contributions.

Will the uniform business rate ultimately have beneficial effects on economic performance? If locally-varying non-domestic rates had led to locational distortions, then it follows that with the introduction of the uniform business rate an adjustment process would over time bring about a more economically efficient equilibrium. However, this argument assumes that in the past firms have put a significant emphasis on the expected rate burden when determining their locations. Some may indeed have done so, but others may have also looked at what they pay for, i.e. when making their locational decisions they would have considered the level of services businesses receive as well as the cost. Nonetheless there has been little work carried out to support the hypothesis that variations in the rate burden between regions have an effect on firms' locations. Econometric work by economists at the Department of Land Economy at the University of Cambridge found that "there is very little if any influence of rates on the location of jobs ... it may in fact be the case that variations in the rate burden between areas do have an effect on location but this effect is simply too small to be detected by the methods used" (Crawford et al, 1985, p.92). Bennett (1986) is critical of the Crawford et al study in terms of methodology and in his own work based on the "costs of capital" approach he argues that in the short-run economic constraints bind and thus it is unlikely that employment or location will be the most responsive factor, although his analysis does find that in the longer run locational decisions are distorted by varying tax rates. Bennett finds that rates of return on investments diverge significantly between low and high rate poundage areas. This will in turn have a corresponding effect on profits. It follows therefore that, in the longer run a uniform business rate poundage may well have a less distortionary effect on profitability and location.

Conclusion

Overall the redistributive nature of the revaluation and introduction of the uniform business rate has meant a reduction in the rate bill in the North and Midlands and a corresponding increase in the South and East Anglia. On average factories and warehouses have gained in the North and Midlands and lost in the South, whilst shops tend to lose out throughout England and Wales.

The revaluations for non-domestic rates meant that the distortions which have arisen from the continued use of the old rating valuations are removed. It is now important that revaluations should be carried out frequently to prevent the difficulties which many businesses have faced this year in adjusting to the revaluation. Revaluations over shorter periods would also assist industries that are in relative decline.

The effects of introducing the uniform business rate are more complex to assess. The main case for doing this is the distortionary effect of local business tax differences on business profitability and location. However, whilst there may have been instances where such distortions have occurred, the evidence that locally-varying business rates had major effects on business decisions in the past is, in fact, rather limited.

Chapter 6

CONCLUSIONS

The introduction of the community charge and the uniform business rate has been accompanied by great controversy, both about the operation of the new system, and about the levels of the tax. In this Commentary we have looked at the issues surrounding the reforms, drawing on the results of a survey, conducted by the Institute of Revenues, Rating and Valuation, of local authorities' administration of the tax, and on detailed analysis of data on community charge and business rate levels.

From the survey of local authorities' administration of the new tax we find that the costs of administration and collection of the community charge and national non-domestic rate are about double the costs of operating the old system. Why should this be so?

It does not appear that costs have been high because of widespread non-cooperation by the public in the process of compiling the community charge register. Most authorities achieved a high rate of return of registration forms from households within their area quite quickly. Local authorities pursued a wide range of approaches to registration, but the experience of higher costs has been widespread, rather than being confined to any identifiable small group of authorities.

It is of course possible that costs in the first year of operation are rather higher than they will be in the long run. Once the register has been constructed, it will need to be maintained, but it could be argued that this may be less costly than setting up the registration process from scratch. However, it is noteworthy that the authorities responding to the survey did not appear to expect any appreciable reduction in costs in 1990/91, compared to the costs in 1989/90 when the bulk of the initial registration took place. Indeed, it may be that the initial registration of the vast majority of the population is a comparatively cheap component of the operation, and that maintenance may not be much less costly than the initial registration. We did indeed observe that some authorities were planning to maintain the register in future years, simply by repeating the initial "blanket" canvass at regular intervals.

Our conclusion is that, at least in part, high administrative costs are inherent in the choice of the community charge itself. This is hardly a novel observation; many have in the past argued that this would be so[21]. There are, moreover, a number of good reasons for believing that the community charge will continue to be a more expensive tax than domestic rates to administer.

21 See, for example, Kay and Smith, 1988.

Firstly, registration of individuals is more complex than that of houses; individuals can move, not only from one year to the next, but also during the course of a year. It is, moreover, not easy to assess when the process of decentralised registration of individuals has been satisfactorily completed. Merely obtaining a registration form from each household does not guarantee that all individuals have been registered.

Secondly, whilst most people will cooperate with registration and are in any case easy to register, there are groups of people who will be much harder to register. Much of the expense of registration is likely to be confined to a small section of the population who are highly mobile, or who live at a number of addresses for different parts of the year. Some individuals may even appear to be current residents of more than one area, for example if their employment takes them away from home during the week. The community charge registration then has to ensure not only that no-one is missed out altogether, but also that no-one is accidentally taxed twice. Sorting out the registration of these people will require substantial, and costly, coordination between authorities. Indeed, it is quite possible that much of the cost of this will lie in the future; people may only try to dispute double registrations once they have begun to receive poll tax bills.

Thirdly, it is quite natural to expect a doubling of the costs of collection, since the number of individual taxpayers will roughly double with the transition from rates to the community charge. On the evidence of the survey reported here, local authorities are experimenting with a great variety of different payments methods, and, over time, may find more effective and innovative ways of improving payments handling and cutting costs. One surprising result to emerge from the survey was that very few local authorities were making any use of the scope to give discounts for prompt payment, or for the use of less costly payments methods. Discounts for immediate lump-sum payment may have been discouraged by some concern for equity between different taxpayers; nevertheless, prompt payment has a cost to the taxpayer as well as a benefit to the authority, and achieving a high level of immediate lump sum payments is unlikely while it is financially "rational" for taxpayers to delay payment.

Why have local tax bills risen so much between last year and this? To what extent can the rises in local tax levels be attributed simply to "overspending"?

In the long run, the community charge is *intended* to lead to a simple and easily-understood relationship between changes in spending and changes in taxation. This is, indeed, crucial to the achievement of the Government's objective of better "accountability". In the short run, however, the relationship has been anything but simple. Those local authorities where tax bills have risen the most have not been any identifiable group of "spendthrift" councils, however that might be defined. It is clear that in fact many different factors are involved in the tax changes between last year and this:

(i) the redistribution between regions that results from the switch from rates to the community charge

(ii) the transitional arrangements

(iii) the increase in "gearing", which has meant that errors in calculating the amount of central government grant needed now feed through sharply into large effects on the community charge

(iv) many other factors, some specific to a small number of authorities, including the unwinding of creative accounting, the "ring-fencing" of the housing revenue account, and the abolition of the Inner London Education Authority. In the London area, in particular, where the effects of the abolition of the rating system on domestic tax bills would in any case have been expected to be substantial, many of these effects also apply.

Given this wide range of influences on the changes in local tax bills between 1989/90 and 1990/91, we believe that it is not possible to say with any degree of conviction what local tax bills *would have been* this year if the rating system had been retained. In particular, it requires us to speculate about what the government would have done about various other aspects of the local finance system in the absence of the community charge. Too much of the new system is interrelated for this exercise to be straightforward, or at all meaningful.

We can, however, show how local tax bills have been changing from last year to this. Our evidence, which is perhaps borne out by the political reaction to the new system, is that few households have been appreciable gainers, in the sense of paying less in real terms in local taxes this year than last. The main gainers have been single-adult households, and the very rich; two adult households and those on average income have experienced significant increases in their local taxes this year.

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APPENDIX A

The Implementation of the Community Charge

A SURVEY OF LOCAL AUTHORITIES IN ENGLAND & WALES

It would be helpful if you could answer as many of the following questions as you can based on the information available to you. For those questions where accurate data is not readily available please supply a 'best estimate', and indicate that this has been done by placing an asterisk by the relevant box. Where an answer cannot be supplied, please write N/H in the box, to signify that the information is not held.

Registration

1. Please state the numbers subject to the personal community charge i.e. excluding exemptions and students eligible for relief, as shown on the authority's community charge register on 1 December 1989.
2. What is the estimated number of students subject to a personal community charge and eligible for relief under Section 13 of the 1988 Act?
3. How many standard community charge properties have been identified ?
4. How many collective community charge properties have been identified?
5. What is the latest estimate of the number of people to be granted exemption from the personal community charge?
6. If the information is available, please indicate as a percentage of the exemption total, the number of exemptions to be granted under the following categories:

Exemptions as percentages of total number

i) Members of visiting forces, international headquarters and defence organisations & their adult dependants.

ii) People who are severely mentally impaired.

iii) Pupils over 18 who are still at school.

iv) Full-time students whose term-time address is in Scotland or Northern Ireland.

v) Patients residing solely or mainly in an NHS hospital.

vi) People whose sole or main residence is in a residential care home, nursing home, mental nursing home, private hospital or hostel providing a substantial level of care.

vii) Residential care workers.

viii) Residents of certain Crown buildings which have been designated by the Secretary of State.

ix) Members of religious orders.

x) Prisoners.

Contracting of Registration Functions

7. If any registration functions were contracted out, or contracted to other departments within the authority, please indicate by ticking the relevant box(es) below which functions were contracted and to whom. (If no contracting was carried out please go to question 8).

			Contractor	
Function *Please tick in appropriate box(es)*	*Another local authority*	*Private company*	*Company wholly/ partly owned by the authority*	*Another department within authority*
i) Complete registration process.	☐	☐	☐	☐
ii) Printing of canvass forms etc.	☐	☐	☐	☐
iii) Issue of canvass forms.	☐	☐	☐	☐
iv) The canvass process.	☐	☐	☐	☐
v) Computerisation of software package.	☐	☐	☐	☐
vi) Data input of canvass returns.	☐	☐	☐	☐
vii) Other. *(please specify)*	☐	☐	☐	☐

....

....

Initial Registration Process

8a What was the predominant method of delivery selected for the first community charge registration? ***(please tick one of the following boxes).***

i) Postal canvass. ☐

ii) Door-to-door canvass. ☐

8b What was the predominant method selected by the public for returning forms?

i) Forms returned to the authority by post. ☐

ii) Forms collected by canvassers or local authority employees. ☐

iii) Other. ☐
(please specify)

....

9. How many canvass forms were issued on the initial registration?

10. How many stages of reminders were adopted during the registration process?

11a What percentage of households had returned canvass forms by the time all the first reminders were issued?

11b What percentage of households had returned canvass forms by the time all the second reminders were issued?

11c What percentage of households have returned canvass forms by the time of completing this questionnaire?

Penalties

12. How many £50 and £200 penalties were imposed for breach of duty to supply information to the CCRO? ***(please state number in appropriate boxes).***

i) £50 penalties.

ii) £200 penalties.

13. What percentage of penalties listed in 12 were subsequently withdrawn?

i) £50 penalties.

ii) £200 penalties.

14. Who makes the decision to impose a penalty?

CCRO.

Principal Officer.

Other ***(please specify)***

....

15. Who makes the decision to withdraw a penalty?

CCRO.

Principal Officer.

Other. ***(please specify)***

....

Anonymous Registration

16. How many applications for exclusion from the public extract of the register have been received? ☐

17. How many applications for exclusion from the public extract of the register have been approved? ☐

Other sources of information for registration/register maintenance

18. Please indicate how useful the following sources of information have proved in the compilation and maintenance of the community charge register.

	Very Useful	*Useful*	*Not Very Useful*	*Not used at all*
i) Rates records.	☐	☐	☐	☐
ii) Rents records.	☐	☐	☐	☐
iii) Housing benefits records.	☐	☐	☐	☐
iv) DSS records.	☐	☐	☐	☐
v) Electoral register.	☐	☐	☐	☐
vi) Register of births, deaths and marriages.	☐	☐	☐	☐
vii) Planning records.	☐	☐	☐	☐
viii) Library records.	☐	☐	☐	☐
ix) University/Higher Education College records.	☐	☐	☐	☐
x) Other records. *(please specify)*	☐	☐	☐	☐

....

....

Maintaining the register

19a. Do you intend to carry out future canvasses to keep the register up-to-date?

i) Yes. ☐

ii) No. ☐

iii) No decision as yet. ☐

(If the answer is 'No' or 'No decision as yet' please go to question 21).

19b. How frequently will the canvass be carried out?

i) Rolling canvass. ☐

ii) Annual blanket canvass. ☐

iii) Less than annual blanket canvass. ☐

20. Will any part of future canvass processes be contracted out, or contracted to other departments within the authority?

i) Yes, as per the arrangement in question 7. ☐

ii) Yes, but not as per the arrangement in question 7. ☐
(please specify any changes)

....

....

iii) No. ☐

iv) Don't know. ☐

Billing and collection

21. What methods of community charge payment will be permitted by the charging authority, and what is the anticipated percentage of total chargepayers to use each method?

	Tick box if payment method is to be promoted	*Percentage of chargepayers to use method*
Direct debit.	☐	
Standing Order.	☐	
Community Charge Stamps.	☐	
Over the counter payment.	☐	
Postal payments.	☐	
Post Office Girobank.	☐	
Automated Payment Machines in Council buildings.	☐	
Credit card.	☐	
Automated payment points at newsagents etc.	☐	
Collection by rent collectors.	☐	

22. Will the charging authority be offering discounts on community charge payments?

	Yes	*% discount to be given*	*No*
i) For prompt lump sum payments.	☐		☐
ii) For payments by direct debit.	☐		☐

23. How many council houses does the authority have responsibility for? ☐

24. What payment frequencies are to be promoted for council tenants? ***(please tick appropriate box(es)***

i) Weekly. ☐

ii) Fortnightly. ☐

iii) 10 monthly instalments. ☐

iv) Other. ☐
(please specify)

....

25. Will these payment frequencies be promoted for other occupants of council properties in addition to the tenants?

i) Yes. ☐

ii) No. ☐

26. Was separate billing of rent and rates for council tenants operated prior to the introduction of community charge?

i) Yes, to familiarise tenants with the forthcoming payments system. ☐

ii) Yes, but not for reasons given in (i) above. ☐

iii) No. ☐

Benefits

27. Please state the number of households in receipt of rate rebate in 1989/90. ☐

28. What percentage of total chargepayers do you anticipate will be in receipt of community charge benefit? ☐

29. How many initial benefit applications for community charge have been received? ☐

30. What publicity has the authority arranged for community charge benefits?

i) Radio. ☐

ii) Local press. ☐

iii) Leaflets to households. ☐

iv) Leaflets at authority offices. ☐

v) No publicity is arranged. ☐

iv) Other. ☐
(please specify)

....

	Month	Year
31. When did/will the authorities publicity for community charge benefits commence? ***(Please state month and year.)***		

Staffing for Community Charge

32. What was the staffing complement required for domestic and non-domestic rates administration (including those handling rates rebates) as at 1 April 1989?

33. What was the staffing complement required for community charge and non-domestic rates administration (including those handling rates and community charge rebates) as at 1 December 1989?

34. What is expected to be the full staffing complement required for community charge and non-domestic rates administration (including those handling community charge rebates) for 1990/91?

35. How many community charge and non-domestic rates vacancies remained unfilled due to shortages as at 1 December 1989 for the following:

    i) Positions for which specified professional qualifications are required e.g. RVA or similar qualification.

    ii) Positions for which no specified professional qualifications are required.

Cost of Implementation

£ ('000s)

36. What were the revenue costs of administering domestic and non-domestic rates in 1989/90?

37. What are the estimated revenue costs of registering and collecting community charge and non-domestic rates in 1990/91?

    £ ('000s)

    i) Community charge.

    ii) Non-domestic rates or,

    iii) Community charge and non-domestic rates combined if the costs cannot be separated.

38. What have been the capital costs of introducing community charge and non-domestic rates in the following years?

    £ ('000s)

    i) 1988/89.

    ii) 1989/90.

39. How much government grant was allocated to the authority in 1989/90 to cover the capital costs of introducing community charge and non-domestic rates?

APPENDIX B

Number of Authorities returning the questionnaire

Class of Authority	Total number of authorities	Total number of authorities responding
London Boroughs	33	14
Metropolitan Districts	36	20
Non-Metropolitan Districts	297	145
Wales	37	19
Total	403	198

Of the authorities returning the questionnaire the following are the response rates to each question

Q1	100%
Q2	100%
Q3	100%
Q4	100%
Q5	98.5%
Q6 (i) - (x)	70%
Q7 (i)	100%
Q8	100%
Q9	100%
Q10	100%
Q11 (a)	92.5%
(b)	80%
(c)	80%
Q12 (i)	99%
(ii)	99%
Q13 (i)	97%
(ii)	97%
Q14	98.5%
Q15	98.5%
Q16	91%
Q17	91%
Q18	100%
Q19 (a)	100%
(b)	95%
Q20	94%
Q21	Avg 75%
Q22	100%
Q23	98%
Q24	100%
Q25	100%
Q26	100%
Q27	96.5%
Q28	10%
Q29	80%
Q30	100%
Q31	100%
Q32	100%
Q33	100%
Q34	100%
Q35 (i)	98.5%
(ii)	98.5%
Q36	93.5%
Q37 Adding (i) and (ii) and combining with (iii) gives	93%
Q38 (i)	87%
(ii)	86%
Q39	72%

APPENDIX C

Method for Determining Uniform Business Rate and Revaluation Effects

We examine the ith region. In year (o) the ith region's rates bill is the product of its aggregate rateable value (RV_i) and the rate poundage set by the ith region. There are n regions.

So: Rate bill (RB_i^o) for region i in year o = $RV_i^o \times rp_i^o$

the average rate poundage or the uniform rate poundage is

$$\frac{\sum^n RB_i^o}{\sum^n RV_i^o} = \overline{rp}^o$$

Consider the rate bill ($\hat{RB}_i^o$) for the ith region when the ith region uses the uniform rate poundage $\overline{rp}^o$

$$\hat{RB}_i^o = RV_i^o \times \overline{rp}_o$$

If the region had imposed upon it the rate poundage $\overline{rp}^o$ then its yield changes by the amount

$X = RB_i^1 - \hat{RB}_i^o$ uniform rate poundage effect

To state the obvious if $\overline{rp}^o = rp_i$ the yield remains the same (X = 0)

In year 1 non-domestic sector properties are revalued and a uniform rate poundage is imposed $\overline{rp}^{1}$ – which is the average rate poundage. The Government sets the condition that the yield in year 1 will be the same as the previous year. $\therefore R\hat{B}_i^o = RV_i^1 . \overline{rp}^1$

Given, $RB_i^1 = RV_i^1 . \overline{rp}^1$

It follows that the effect from the revaluation must be the difference between

$R\hat{B}_i^o - RB_i^1$ revaluation effect.

and to reiterate the effect as a result of the move to a uniform business rate is X i.e.

$RB_i^o - R\hat{B}_i^o$

The change in the tax bill is $\therefore (\Delta RB_i)$ is the sum of the revaluation effect and uniform business rate effect. So

$$\Delta RB_i = (RB_i^o - R\hat{B}_i^o) + (R\hat{B}_i^o - RB_i^1)$$

$$= RB_i^o - RB_i^1$$