

## Local Taxation a Penetrating Analysis

THE SOUNDEST approach yet to a solution of the two primary questions of local government—autonomy and finance—is contained in Research Paper No. 2\* published by the Economic Study Association this month.

As will be readily acknowledged, independence of action in local government depends largely upon independence from government funds and the problem of obtaining an independent source of revenue is the main theme of this well-researched and closely reasoned paper.

The structure and ramifications of local government finance are considered in the light of the division of responsibility and power between the national and local authorities.

The paper concludes that much of the discontent and clamour for local government reform can be removed by the reform of local government finance. With power to raise and spend its own revenues, local government could cease from being little more than local agents of central ministries. To achieve this desirable state of affairs would require a source of revenue that was viable, strong, certain, logical and in accordance with the most generally accepted canons of taxation.

Looking at the present system of raising local revenue, the researchers, while finding good grounds for criticism, nonetheless, reassert their faith in the property tax. However, a fundamental if not revolutionary change in the basis of assessments is proposed. This basis would in itself provide

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economic incentives that would tend to iron out, naturally, the differences between the prosperity of advancing and declining regions as opposed to the present artificial attempts to do this. The directive methods employed have so far met with little success and they give rise to much frustration and resentment.

From the purely financial angle, it is claimed, and not without striking evidence, that by changing the basis of assessments from the composite value of sites and buildings to assessments on "situation rents" or sites only, local revenues can be increased by 50 per cent.

This Research Paper is no superficial survey of the local government scene. Municipal finance is not examined in isolation but in relation to all the economic factors affecting the environment of the different regions; factors which ultimately determine the growth, prosperity, development and balance of local communities and consequently the general wellbeing of those for whom local government works—the people as a whole.

Beginning with the helpful and relevant history of the development of local government and the various acts that have affected it, the paper examines the so-called private and public sectors of the community and the conflict between political and economic considerations; the case of the ratepayer versus the taxpayer; subsidies, grants, reliefs and special dispensations.

The survey deals with the incidence of local rates and the manner in which it has been affected by the various housing and rent Acts; the National Debt; purchasing power of money; taxation and the cost of living. New light is thrown upon the location of industry and industrial incentives and dis-incentives and upon interest charges. The "ability to pay" concept and the standard defects in current assessment methods are also examined.

The chapter on the economics of business enterprises illustrates the manner in which these enterprises arrive at their final disposable income necessary to meet all claims on their production and how they arrive at the final residue of "pure profit." This analysis is related to the situation rents in a fascinating way.

The trend of wages and salaries over the last one hundred years acquire special significance when related to current assertions that the rates are higher than ever.

The development of the many seemingly unrelated aspects of income, expenditure, and taxation within the economy are correlated in a manner which gives weight, substance, and colour to the final conclusions.

Here at last is some original thinking on the subject of rating and taxation and it is not surprising, to us

at least, that the conclusions of the researchers bear out so much of what has been said in these columns over the years.

Below we give the summary of conclusions from the paper.

## CONCLUSIONS

**I**N FEBRUARY 1966, the Government published a White Paper in which it admitted the need for reform of local government finance. No proposals were made but the hope was expressed that the new structure which was expected to emerge from the deliberations of a forthcoming Royal Commission would provide a promising context for the drastic reform of local government finance.

The Royal Commission was appointed in May 1966, under the Chairmanship of the Right Honourable Lord Redcliffe Maud, "To consider the structure of local government in England outside Greater London in relation to its existing functions and to make recommendations for Authorities and Boundaries and for functions and their division having regard to the size and character of areas in which these can most effectively be exercised and the need to sustain a viable system of local democracy." Their Report was published in June 1969. Although the Royal Commission was not precluded by its Terms of Reference from considering finance, and ten of the fifteen proposals put forward in the Majority Report related to finance, in total they amounted to little more than a further expression of hope. It may be assumed that the central government has no immediate proposals for, "any immediate reform of local government finance," from the fact that they have recently introduced to Parliament the General Rate Bill 1969 designed to assist the general revaluation due to be completed by 1973.

As has already been stated the present rating system is inadequate for local authority needs and this has been admitted by the government. Revaluation by the present method will not alter this situation and the financial requirements of local authorities are not likely to be reduced by a re-organisation of their structure and boundaries. It would, therefore, seem to be entirely irresponsible for any central government to do violence to the present structure and organisation of local government unless the reform of local government finance is put in hand at the same time.

The reform of local government finance must provide as a minimum firstly a local revenue adequate for local needs, and secondly for the reduction in central control. These two requirements would be met along the lines of the following proposals: -

1. Central government grants to local authorities to be

replaced by central government grants to persons and by the central government discharging by direct payments its financial liability to particular local authorities.

2. The central government to assume full responsibility for all outstanding local authority debts relating to rate fund services.
3. Local authorities should not be empowered to borrow (other than normal overdraft requirements) to cover expenditure on rate fund services.
4. Any local authority services requiring loan finance to be operated according to normal commercial principles and have no regular recourse to the rate fund.
5. Rateable values should be assessed on the situation rents of all sites in accordance with the definition given in the L.C.C. Bill of 1938/39.
6. A maximum poundage should be fixed by the central government.
7. Local authorities to be empowered to levy the maximum rate on all sites.
8. An equalisation fund to be set up within the local authority sector but under central government regulations.
9. The central government to fix the poundage for local authorities contributions to the equalisation fund.
10. Since local situation rents are largely determined by local prosperity, local authorities should have full responsibility in matters affecting local prosperity.

Finally it must be noted that finance has a bearing on the required structure, organisation and boundaries. For example, much of the case for provincial councils rests on the concentration of power at the centre, but this concentration itself is grounded on financial



dependence. We conclude, therefore, that financial reform is a necessary part of local government reform, and that finance cannot be considered separately from structure and organisation if the objective is strong local government in this country.