

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

**WELSH ASSEMBLY GOVERNMENT  
CONSULTATION OF THE BALANCE OF LOCAL AUTHORITY FUNDING  
IN WALES  
SUBMISSION TO THE OFFICE OF THE DEPUTY PRIME MINISTER'S  
BALANCE OF FUNDING REVIEW STEERING GROUP**

**Background**

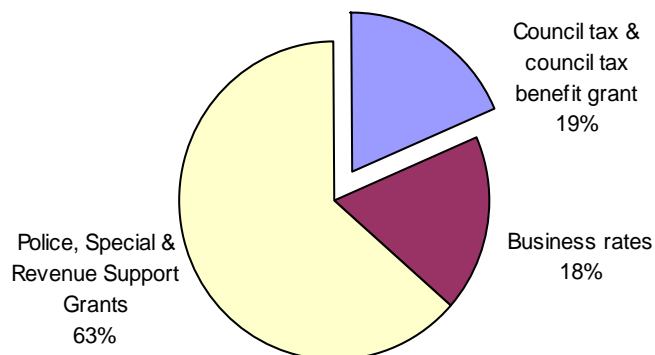
1. The Welsh Assembly Government has a clear interest in the Balance of Funding Review being undertaken by the Office of the Deputy Prime Minister (ODPM)-led Steering Group. This is because the primary legislative basis for funding local government in Wales, for example, the Local Government Finance Act 1988 which contains the primary legislation on National Non-Domestic Rates (NNDR) and Revenue Support Grant and the Local Government Finance Act 1992 which contains the primary legislation on Council Tax, are common to England and Wales. Therefore, any proposals for consideration of changes that might follow on from the review would have an impact for Wales.
2. Moreover, the way that the Welsh Assembly Government is funded under the Barnett formula arrangements is linked to consequential adjustments that may be made to the ODPM Departmental Expenditure Limit for funding local government in England. Any change in the balance of funding could therefore have serious financial implications for the Welsh Assembly Government's budget and would need to be reflected in HM Treasury's 'Statement of Funding Policy'.
3. A Welsh Assembly Government official has attended the Review Steering Group. Nevertheless the submission of this paper represents an opportunity to bring to the Review's attention the circumstances in Wales and the positions that have been taken by key parties.

**The Welsh Context**

4. Wales has devolved responsibility for local government finance and as mentioned earlier there is a close legislative and financial relationship with England that must be considered if or when changes are proposed in the way that local government is financed in England. Likewise there are circumstances in Wales, which could mean that a solution suitable for England might not be appropriate in Wales. Nevertheless, the circumstances are broadly similar although the balance of funding in Wales is about 81:19 whereas in England it is 75:25. In Wales, this is made up as follows:

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**



5. Currently, the balance of funding varies between the 22 unitary authorities. In terms of the balance of funding, at one end of the spectrum, local taxation in Monmouthshire covers 23% of local expenditure, with 77% covered by Assembly Government funding while in Newport the balance is 15% and 85%. Welsh Assembly Government support through the Revenue Support Grant is distributed by means of a Standard Spending Assessment (SSA) formula. This aims to equalise for both resources in terms of taxbase and need by using a formula based on indicators for population, deprivation and sparsity.
6. While the SSA aims to equalise for need and resources there is nevertheless a wide disparity in the distribution of the taxbase across Wales. This means that local budget setting decisions can have a disproportionate impact on Council Taxes. This can cause particular problems to authorities, often in deprived areas, which try to maintain service levels in circumstances of declining population.
7. Thus, while the question of the balance of funding has been the subject of debate over many years it is not the only issue. As is clear from earlier paragraphs, Welsh Assembly Government funding is being used as a means of equalisation and we believe that adequate government funding is also an important requirement. The attached appendix identifies some of the key statistics that were used to inform the consultation process.

### **Key Principles**

8. Prior to considering the approach to the consultation and the responses in more detail, the Welsh Assembly Government believes it is important to set out the framework, in terms of key principles, within which it has formulated its views on the consultation responses. The Welsh Assembly Government believes that whilst other principles may be relevant in assessing alternative frameworks for the system of local government finance, the following principles are key to evaluation and any system must therefore address the following:

### **Fairness**

9. The financing of local services needs to achieve fairness in that the payment of taxes should reflect the ability to pay and distribution of resources should reflect the relative need for local services. The ability of individual taxpayers should be considered in relation to the nature and availability of benefits and/or credits and the impact of above inflation increases on those with low and/or fixed incomes. Fairness should also be considered between taxpaying groups, for example between domestic and non-domestic taxpayers. In addition, fairness should be paramount in the context of ensuring that communities living in different local authority areas should have access to uniform levels of service delivery.

### **Efficiency**

10. The costs of collecting local taxes need to be proportionate to the yield of those taxes. Very careful consideration should be given to any change in the form of local taxes in ways which add significantly to the overhead of collection costs. The presumption must be that any local tax should not impose additional administrative burdens on taxpayers or those organisations required to collect the tax, which are disproportionate to the yield.

### **Transparency**

11. The public are increasingly demanding to see a clearer link between the taxes they pay and the service they receive; and may be frustrated by the complex arrangement of local taxes and grants which provides little link between the levels of tax and service. Any reforms should aim to simplify the system of local government finance not serve to further confuse or cloud. The blame culture between authorities and Government needs to be addressed. It should be clear which decisions result in particular levels of taxation or service.

### **Accountability**

12. The authority that levies a tax should ideally be held to account for the value of service achieved through the tax revenue. A lack of transparency confuses accountability. Increased transparency would lead to increased accountability, as the public would have better information and be able to make more informed decisions.

### **Approach to the Consultation**

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

13. As there was a consensus in Wales that a Welsh viewpoint needed to be presented to the English review, the Welsh Assembly Government issued its own consultation paper 'The Balance of Local Authority Funding in Wales' in February 2004 with the consultation closing on 30 April. The consultation paper was circulated widely in Wales including to all county and county borough councils, police and fire authorities, the Welsh Local Government Association and organisations representing the business and voluntary sectors. It was also made available on the Welsh Assembly Government's website.
14. The aim of the consultation was not to duplicate research being undertaken as part of the Review in England but to seek views about the balance of funding local government in Wales. The objective was to provide evidence on which to respond to any changes in funding arrangements that may follow from the ODPM-led review.
15. 47 responses were received from a wide range of stakeholders in the system of local government finance in Wales. These included, local authorities, the Welsh Local Government Association, the Chartered Institute of Public Finance and Accountancy, the CBI (Wales), the Cardiff Chamber of Commerce, the Welsh Liberal Democrats, academics and members of the public. A copy of our consultation paper is attached to this submission.

## **Responses to the Consultation and Welsh Assembly Government Views**

### **General**

16. It was acknowledged by the majority of respondents that the Welsh context might warrant specific Welsh solutions but that given the close legislative and financial ties between the two countries Wales should have been part of the ODPM led Steering Group. A number of responses also made the point that any changes should not result in a transfer of tax burden to the individual Welsh taxpayer in favour of the UK taxpayer.
17. Respondents also wished to express in general terms that any system of local taxation needs to give a high priority to taxpayers' ability to pay and have particular regard to effects upon vulnerable residents.
18. Many respondents argued that the Council Tax system itself was not fundamentally flawed. Rather, the key issue lies with the way in which Council Tax has been forced, through interaction with other elements of the local government finance system, to carry a greater proportion of the increase in local authority expenditure than it should be expected to. The effects of this were particularly acute in respect of taxpayers on low or fixed incomes.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

19. Other general comments referred to issues such as police and community council precepts not being ignored in terms of the effect they were having on Council Tax bills. Reference was also made to the effect on bills of the funding of fire authorities.

**Welsh Assembly Government View**

20. The Welsh Assembly Government supports these points. We have set out our belief that fairness is a key principle for the local government finance system, therefore in our view a high priority should be given to ability to pay. We have stated that this includes consideration of the Council Tax benefits' system and it is in this area that there seems to be common ground between England and Wales. Whilst recent work on improving benefit take up by the Department for Work and Pensions is to be commended, the Assembly Government believes that further more radical reform of the system should be considered and we have set out our suggestions in the conclusions to this response.
21. In summary, the evidence from Wales therefore suggests that Council Tax has lost some credibility with local taxpayers partly because the benefits system has not kept pace with Council Tax increases.
22. The Assembly Government also takes seriously the comments made about precepting authorities, particularly police authorities. These must not be ignored as they can have a significant impact on the level of Council Tax raised by local authorities. It is our view that there are alternatives for funding police authorities, one of which is if they were wholly funded by central government. This would clarify the issue of accountability, and immediately improve the gearing but further consideration would be required if this option were to be pursued.

### **Consultation Questions**

*Question 1- This paper shows that the balance of funding between what is provided centrally by the Welsh Assembly Government and what is raised by local taxation is in the ratio of 81:19. Do you think a change in that balance (i.e. an increase in the proportion raised locally) would enhance local government's*

- *accountability*
- *efficiency*
- *electoral turnout*
- *capacity to respond to changing local circumstances*
  
- *or is the balance of funding irrelevant to those issues?*

23. There was a general view that the balance of funding did not affect these matters to any significant degree but that a change could be a means of improving accountability and electoral turnout.

24. It was also noted in this context by local authority respondents and the WLGA that return of business rates to local authority control would improve accountability between the business sector and local authorities and act as a catalyst to a more productive working relationship between authorities and business. Some local authorities expressed disappointment at the limited interaction with the business community at budget setting time, despite providing opportunities for business to comment. However, the two responses from organisations representing the business community felt that recent initiatives such as Business Improvement Districts were beginning to build a more productive relationship between the business community and local authorities. On the other hand returning business rates to local control might serve to erode the progress which is being made.

25. In this context several respondents also noted that local authorities had been given new powers and responsibilities to address local issues but that the current finance system is an inhibitor to this.

### **Welsh Assembly Government View**

26. Clearly issues such as accountability and electoral turnout are multifaceted and the balance of local authority funding is only one factor in these complex relationships. However, despite the lack of firm evidence to support the premise that the balance of funding has a significant effect on these matters it is difficult to conclude that it has no effect at all.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

27. The evidence collected as part of the Welsh Assembly Government's consultation strongly suggests that many stakeholders feel that the business community has in recent years not been paying a 'fair share'. While we do not necessarily want to return to the previous system in all respects, there seems to be support for exploring the relationship - both financial and non-financial - between local authorities and the business community.

*Question 2- There is a growing perception that the current system of local taxation is no longer appropriate. Do you agree? If so, how can we best address the need to ensure local government is properly funded to deliver local services?*

28. Members of the public felt strongly that the current levels of Council Tax are unsustainable and that abolition of the Council Tax was the way forward or at least serious reform of the system was required.

29. However, other respondent groups, with the exception of the response from the Welsh Liberal Democrats felt that Council Tax should be retained as a basis for local taxation as its advantages outweighed its disadvantages. These respondents felt that it still retained many of the aspects of a good system of taxation as set out below. However, respondents felt it should be reformed and that the benefits system be reconsidered in terms of 'credits' to address the issues surrounding the unpopularity and social stigma attached to means testing.

30. Local authorities and the WLGA believed that the public's views of Council Tax were more to do with Council Tax levels as opposed to the tax itself and that Council Tax levels were a result of interactions in the whole system of local government finance.

**Welsh Assembly Government View**

31. The Welsh Assembly Government believes that Council Tax has much to commend it in terms of the key principle of efficiency. Greater fairness could be achieved by immediate reform of the Council Tax benefit system. Reforms which could be taken forward for immediate consideration include reviewing and revising both the income and the savings thresholds for eligibility and introducing some form of taper.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

32. The Welsh Assembly Government is seriously concerned that responses to the consultation have highlighted the social stigma associated with claiming means tested benefits by some taxpayers and believes this is a barrier to further improving the take up of Council Tax benefit. In light of this as well as reform of the basis of eligibility immediate reform of the processing of benefit claims should be introduced. These should include renaming the benefit as so to describe it differently, for example, a 'credit', and providing better and more widely available information and assistance to Council Tax payers. The current system needs to be extended to provide at least partial support, with tapers, for a wider range of income groups. The bureaucracy associated with the scheme needs to be reduced and replaced by innovative systems which help people understand and participate in the scheme.

*Question 3- What do you consider the most important principles and objectives for a system of local taxation and why? What are the implications of your chosen priorities?*

33. A wide range of principles were put forward but the most regularly identified principles were; accountability, fairness, sufficiency and certainty, variety and buoyancy of income, support for partnership working and supporting the new powers given to local authorities, efficiency and value for money. In the context of fairness ability to pay was seen as paramount.

**Welsh Assembly Government View**

34. As set out earlier, the Welsh Assembly Government believes that the key principles are fairness, efficiency, transparency and accountability. This is not to say that other principles are not important but any proposals for change should at least be capable of meeting these four key principles.

*Question 4- How important is equalisation? Would a change in the balance of funding provide an opportunity for less equalisation or more?*

35. Most respondent groups recognised that equalisation was important to address differences in needs and taxbases and that a sufficient amount of equalisation would be needed no matter what the balance of funding.



**Welsh Assembly Government View**

36. The Welsh Assembly Government supports the view that equalisation is important no matter what the balance of funding. It is important that communities living in local authorities with a low taxbase and/or a high level of need are not penalised in terms of local services because the community is not able to generate sufficient revenues at a local level. There must be a consistency in the level of core local authority services across Wales.

37. In addition it is suggested that equalisation should remain a matter for Welsh Assembly Government in Wales and ODPM in England regardless of any changes which may result from these consultation processes as the equalisation system should clearly be designed to meet local needs and circumstances.

*Question 5- How easily would equalisation work if there was no central grant and local government was funded entirely from local sources?*

38. The view from the majority of respondents was that this was not a viable option.

**Welsh Assembly Government View**

39. The Welsh Assembly Government believes that particularly in the circumstances of Wales, where spending need and local resources vary significantly, there is a need for a substantial Assembly Government Grant in order to achieve the necessary level of equalisation.

*Question 6- Is the restriction of local government's ability to raise taxes at will via 'gearing' a useful discipline or an undemocratic burden? Does it promote efficiency? Is gearing itself the problem, or its uneven distribution between authorities?*

40. Views differed between respondent groups as to the usefulness of gearing as a discipline. Business respondents felt it was useful and stressed that further measures should be undertaken to improve local authority

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

efficiency and effectiveness before options for raising additional revenues were considered.

41. Other respondent groups felt that gearing represented an undemocratic burden and ran counter to the new responsibilities and freedoms given to local authorities to address the needs of their communities.

**Welsh Assembly Government View**

42. Under the current legal and financial relationship between England and Wales, some aspects of gearing would have to be addressed at an England and Wales level because primary legislation is required. For example, if business rates or a percentage of it were to be returned to local authority control. Other aspects of gearing, such as its variation across authorities, can be addressed locally by the different administrations. In terms of a submission to this Steering Group it is the former aspect which is relevant.

43. The impact of gearing in terms of the domestic taxpayer, no matter what the form of taxation, is dependent on interactions with other elements of the local government finance system. The Welsh Assembly Government therefore submits that evidence from Wales suggests increasing the number of taxes raised locally could be considered in this context.

*Question 7- Various proposals for changing the current funding arrangements for local government have been discussed in this paper. Do you think that any of these changes (or any others you might like to suggest) would address the current issues? Should the approach be to adopt a package of reforms to the existing system, or would adoption of just one of the proposals address the problems?*

44. Whilst there was not consensus amongst the respondent groups on specific issues, in many cases there was consensus that what is required is a package of reforms. Some of these reforms could be undertaken in the short term while others were more medium to longer term solutions and would require further research and exemplification before respondents would give firm support.

45. The one issue upon which local authorities and business agreed (although not all members of the public) was that complete replacement of Council Tax with a local income tax was not a realistic option in the short term. Indeed the two organisations representing business which responded felt it was not a realistic option at all because of the potential burden in collecting it through the PAYE system.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

46. The submission from the Welsh Liberal Democrats argued the case for replacement of Council Tax with a local income tax. 25% of the local authorities which responded were opposed to any form of local income tax, while 31% of authorities felt that local income tax could have some merit as a supplement to Council Tax. The Welsh Local Government Association, the Chartered Institute of Public Finance and Accountancy and Society of Welsh Treasurers all commented that, subject to further research, local income tax might have merit as a supplement to Council Tax. Respondents making this case tended to argue that this would be feasible on the grounds that the advantages of a property tax as the main source of local revenue (e.g. low collection costs and stability of yield) could be retained but a supplementary local income tax would provide access to another form of local revenue.
47. In light of this there was consensus (with the exception of several members of the public who felt that abolition was the only solution) that Council Tax should be retained but reformed together with the benefits system attached to it. The suggested reforms have been discussed above.
48. There was consensus amongst many of the respondent groups that business rates should be returned to local authority control with suitable safeguards to protect business and that this should include removal of the pegging of the business rate increase to RPI. It should be noted that responses from the two organisations representing business were strongly opposed to any change to the current system of business rates, while members of the public felt that business was not paying its 'fair share'. It should also be noted that organisations representing business expressed strong support for Business Improvement Districts and the Local Authority Business Growth Incentive as a means of developing the working relationship between local authorities and the business community.
49. The final element relates to exploration of the feasibility of introducing other fees and charges but it was recognised that this would be a solution at the margins as opposed to the return of business rates which would result in a significant shift in the balance of funding. Local authority responses suggested that new powers in the Local Government Act 2003 should be extended to all local authority services (not just discretionary ones) and that all Assembly control over mandatory charges should be removed.

**Welsh Assembly Government View**

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

50. The Welsh Assembly Government supports further exploration of all of the above options. It also notes the lack of consensus between key stakeholder groups in respect of the return of business rates to local authority control.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

51. However, the Welsh Assembly Government would wish to see this option being actively considered as a means of building upon the emerging productive relationship between local authorities and the business community through the implementation of Business Improvement Districts and the Local Authority Business Growth Incentive scheme. A productive working relationship between the business community and local authorities in Wales is essential in taking forward the Welsh Assembly Government's priorities for partnership and participation as set out in 'Wales: A Better Country'.
52. The Welsh Assembly Government understands the concerns of business but believes that a constructive way forward would be to consider a phased approach to the return of business rates to local authority control. This would not necessarily mean a return to the 'old' system as fairness is a concept which must be applied across taxpaying groups as well as within them.
53. The phased approach could take the form of first severing the link with RPI but within parameters to be agreed between local authorities, business and the Welsh Assembly Government. This could be undertaken in the context of the planned move to three year revenue settlements for local authorities which would mean predictability and stability for business over the medium term.
54. The effectiveness of this approach could then be considered before implementing full return of business rates to local control again within parameters to be agreed between the Assembly, local authorities and business.
55. The advantages of this approach are that it would ensure fairness between taxpaying groups and would be efficient as local authorities already collect the tax. It would also mean that business would be better able to hold local authorities to account for the services it receives and it would thus improve transparency and accountability. In this context accountability should not be considered only in the narrow terms of electoral accountability as local authorities have a wider accountability to their communities as a whole.
56. The Welsh Assembly Government does not believe that local income tax is a viable short term replacement for Council Tax. It does support further research into the viability of local income tax as a supplementary local tax but has reservations as to whether this will meet the criteria of efficiency and might serve to confuse transparency and accountability.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

*Question 8 - What specific options for major change would you propose or support? What changes might you oppose? Why? What are the pros and cons of each of these options?*

57. Responses to this question did not make any points in addition to those raised in response to Question 7. Therefore to reiterate, with the exception of responses from the two organisations representing business, the option for major reform proposed by respondents was return of the business rate to local authority control. This should include suitable controls to protect the interests of business and removal of the restriction on increases to RPI.

**Welsh Assembly Government View**

58. As set out above consideration of this option is supported on the proviso that due regard is given to the concerns of the business community.

**Local Government and Public Services Committee**

59. The Local Government and Public Services Committee, which is an all party committee of Assembly members tasked with the development and scrutiny of policy in these areas, considered the responses and the Welsh Assembly Government's views at its meeting on 16 June 2004.

60. The advantages and disadvantages of Council Tax as the main form of local taxation were discussed. The discussion considered whether the tax itself was the issue or whether the level of the tax and its volatility were the main concern of respondents. Discussions also considered the importance of ensuring an element of predictability for taxpayers, both domestic and non-domestic as so as to provide a sound basis for financial planning. The importance of the Council Tax benefit system was discussed, as was the need for its immediate reform.

61. In discussing Council Tax, the Committee also considered the effect of precepts on the overall level of the tax. The importance of clarity and transparency were discussed as was the importance of communication with the public. The level of the police precept and the option of 100% grant funding of the police service were also considered.

62. Within the context of the discussion on the overall level of and volatility of Council Tax, the alternative of identifying some services as national services, funded nationally and provided locally, was discussed. It was considered whether the remainder of 'local' services could then be funded from local taxation.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

63. The Committee discussed the advantages and disadvantages of local income tax, both as the main form of local taxation and as a supplement to Council Tax. The discussion centred on taxpayers' ability to pay and collection rates. The discussion also considered what effect a change in the form and/or number of taxes raised locally might have on gearing. Concern was expressed that the costs of collection on business should be fully considered.
64. In terms of business taxation the Committee discussed the advantages and disadvantages of the return of business rates to local authority control with particular reference to the removal of the RPI link. Alternative forms of local taxation of business were also discussed such as a local corporation tax.
65. The various options for raising additional local revenue by the introduction of local fees and charges was discussed. The discussion considered in particular the relative ability of different councils with different local circumstances to raise revenue by this means.
66. The Welsh Assembly Government thanks the Committee for its contribution to the Review.

### **Conclusions**

67. The evidence collected from Wales in response to the Welsh Assembly Government's consultation paper on 'The Balance of Local Authority Funding in Wales' suggests the following package of reforms should be explored:

- Immediate reform of Council Tax benefit and discount systems. Our proposals for reform have been set out earlier in this submission. The Welsh Assembly Government believes that if reform of the benefit system is taken forward the Council Tax system could be fair and would remain efficient as a basis for local taxation.
- The Welsh Assembly Government does not believe that local income tax is a viable source of local revenue in the short term as the core basis of local taxation. However, further research into the viability of local income tax as a supplementary source of local revenue could be worthy of consideration. This research is needed to ensure that if local income tax were to be introduced on this basis it would not result in a disproportionate increase in the costs of collecting local taxes, that it would not reduce transparency nor confuse accountability.
- The Welsh Assembly Government has sympathy with the concerns of business in respect of the return of business rates to local authority control. However, it believes that consideration should be given to a phased approach to return on the basis set out earlier in this submission. This would in the longer term improve fairness between taxpaying groups, be efficient and improve both accountability and transparency.
- The Welsh Assembly Government believes that consideration and exploration of the introduction of other fees and charges with the revenue retained locally should be undertaken. However, the criteria of fairness, efficiency, transparency and accountability are equally applicable in this scenario and new taxes and charges should not be introduced at the margins if they cannot be shown to meet these criteria.

68. Finally it is hoped that the Steering Group will give due consideration to this submission as part of the preparation of its final report.

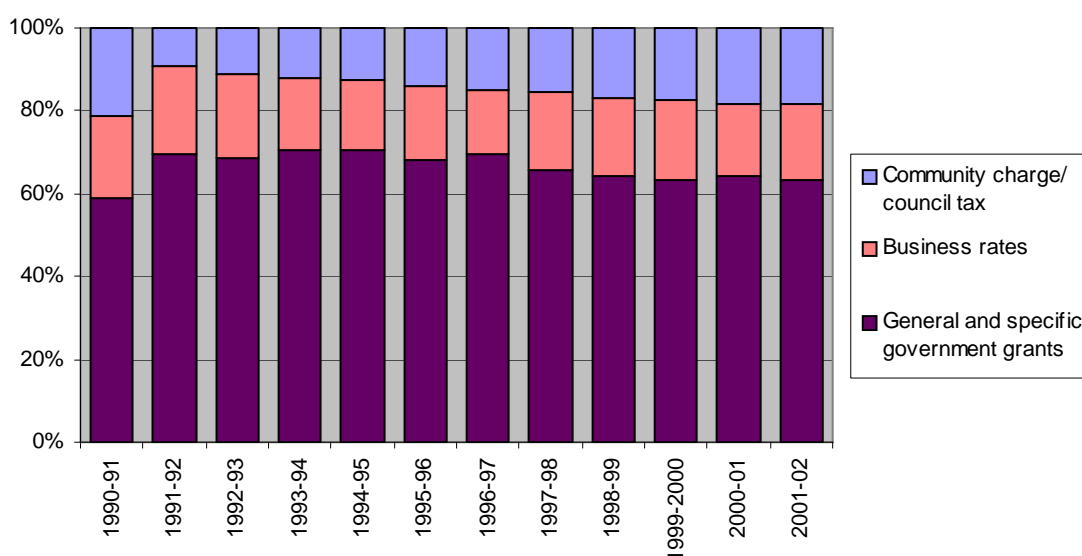
**Welsh Assembly Government  
June 2004**



### THE WELSH CONTEXT AND KEY STATISTICS

Figure 1 illustrates how the proportion of local and central funding has changed in Wales since the abolition of the domestic rating system and its replacement by the Community Charge in 1990-91. Following this, central support increased in 1991-92 to smooth the transition to the Community Charge. The Council Tax was then introduced on 1 April 1993 based on 1991 house prices.

**Figure 1: Balance of funding 1990-91 to 2001-02<sup>1</sup>**



Source: Welsh Local Government Financial Statistics 2002

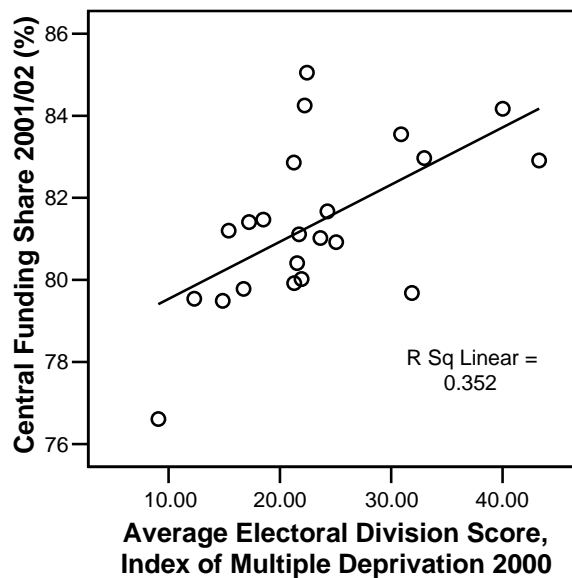
#### **Variation between local authorities**

Currently, the balance of funding varies between the 22 authorities<sup>2</sup>. Local taxation in Monmouthshire covers 23% of local expenditure, with 77% covered by Assembly Government funding. The balance in Newport, on the other hand, is 15% and 85%. This variation is associated with the level of deprivation. Authorities in more deprived areas tend to have less capacity to raise revenue from Council Tax and a greater need for resources to meet costs associated with disadvantage. The local government finance system in Wales adjusts for both these factors by providing more grant.

<sup>1</sup> Includes Police Grant

<sup>2</sup> National park and police authority funding have been pro-rated across unitary authorities on an appropriate basis of apportionment.

**Figure 2:** Balance of Funding and Deprivation for Unitary Authorities in Wales<sup>3</sup>



Source: Revenue Outturn form data / Welsh Index of Multiple Deprivation 2000 - Local Authority Analysis

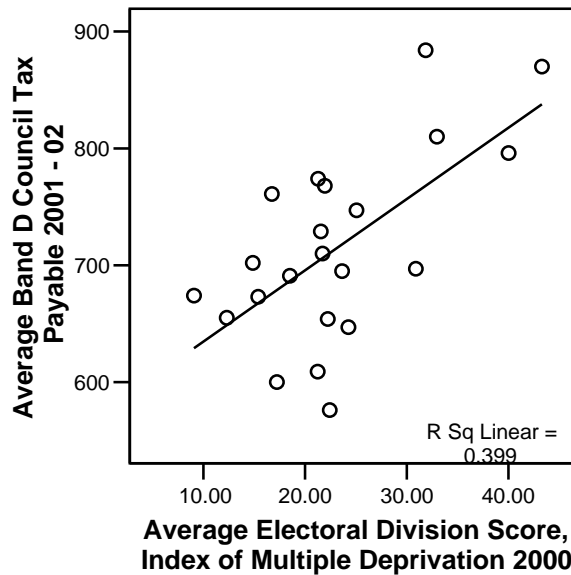
A similar relationship can be seen between Council Tax levels and deprivation as shown in Figure 3. Where deprivation is associated with population decline, the loss of central government grant can lead to pressures to increase council tax; culminating in the perverse circumstance of the poorest areas having the highest levels of council tax for any given band of property.

<sup>3</sup> The deprivation figures used here are the population weighted averages of the combined scores for the electoral divisions in each authority. This is one of a number of ways of summarising the data from the Welsh Index of Multiple Deprivation at a local authority level: other measures could equally have been used.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

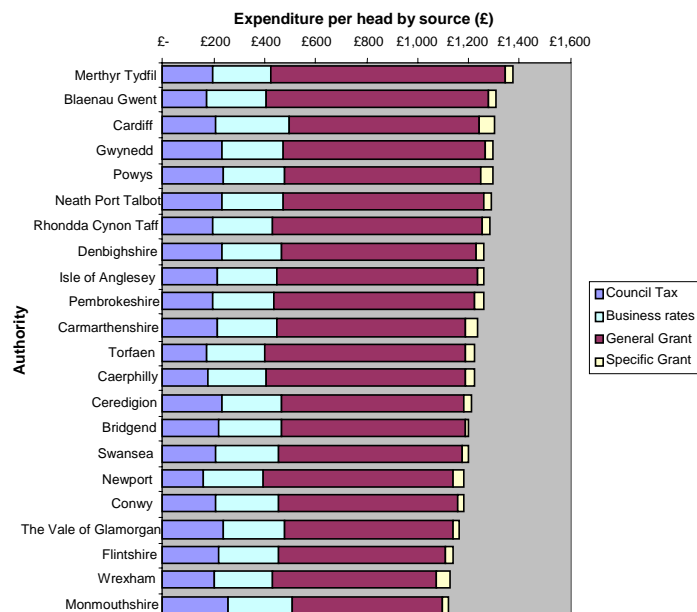
**Figure 3: Council Tax and Deprivation Levels for Unitary Authorities in Wales**



Source: Welsh Local Government Financial Statistics 2001 / Welsh Index of Multiple Deprivation 2000 - Local Authority Analysis

Authorities with the highest levels of grant funding (i.e. unhypothecated revenue support grant and other unhypothecated grants)<sup>4</sup> per head include Merthyr Tydfil, Blaenau Gwent and Rhondda Cynon Taff, and have correspondingly higher levels of total funding per head. This is borne out by Figure 4.

**Figure 4: Sources of Revenue Funding per head by Unitary Authority 2001-02**



<sup>4</sup> An unhypothecated revenue grant may be used by local authorities for any revenue purpose for which they have a basis in statute to provide either as a requirement or by discretion.

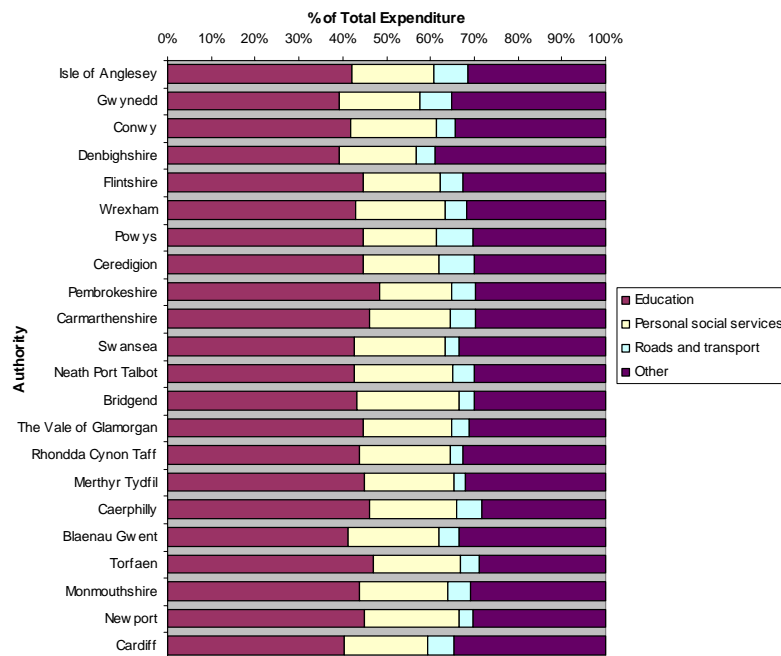
**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

Source: Revenue Outturn form data

In all cases, the majority of authority expenditure goes to the education, social services, and transport service areas, whilst others, such as libraries and environmental services make up less than half of overall expenditure, as Figure 5 shows.

**Figure 5:** Expenditure by service block by Unitary Authority 2001-02



Source: Revenue Outturn (RO) data forms 2001-02

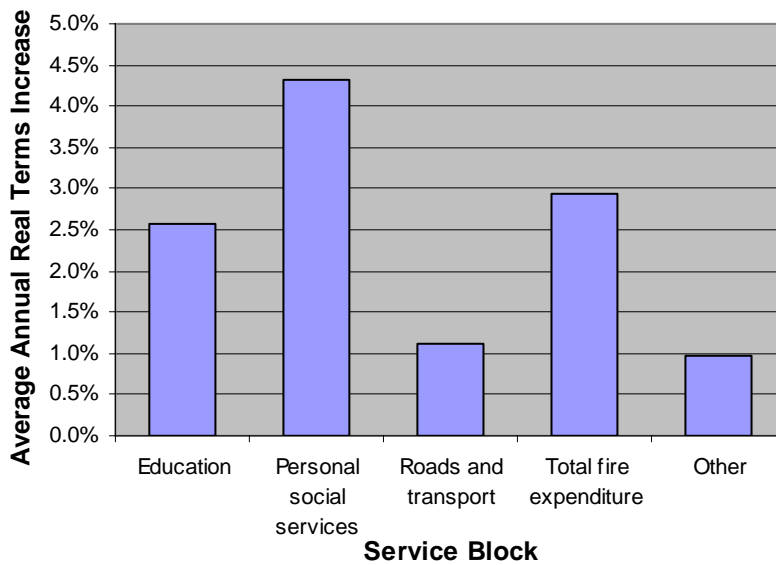
**Growth in authority budgets**

The Review takes place within the context of significant growth in expenditure in recent years. Figure 6 overleaf shows that the average annual increase in net current expenditure has been highest in education and social services from 1997-98 to 2001-02. Authorities have been faced with additional demands for services especially in these areas because of both local demands and Welsh Assembly Government policy initiatives.

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

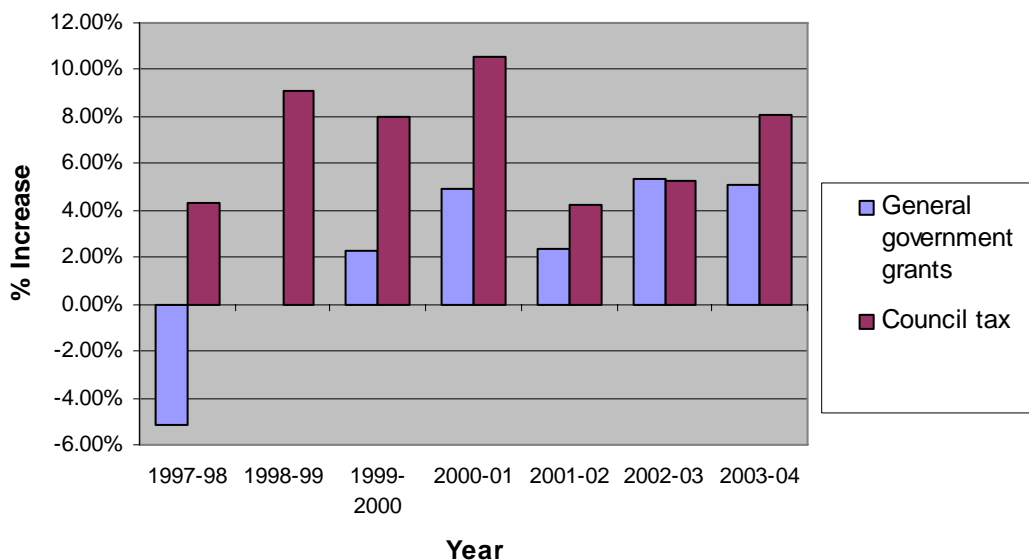
**Figure 6:** Average Annual Real Terms Increase<sup>5</sup> in Expenditure 1997-98 to 2001-02



Source: Local Authority Budgeted Revenue Expenditure First Releases

As expenditure has risen so have the pressures on the means to finance this. Figure 7 shows that in real terms central grants and Council Tax income have grown since 1997-98.

**Figure 7:** Annual Real Terms Increases in Funding



Source: Welsh Local Government Financial Statistics 2002

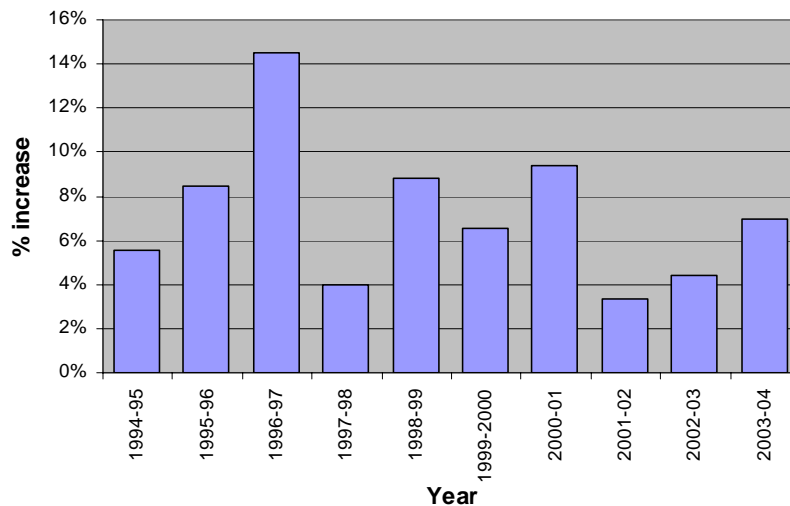
<sup>5</sup> Based on HM Treasury GDP deflator as at November 2003

**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

Property taxes in the UK are high by international standards. In 2000 they were estimated to be 4.4% of GDP for all property taxes compared to a European average of 2.0%. Figure 8 shows how increases in the average Band D Council Tax in Wales have varied in real terms.

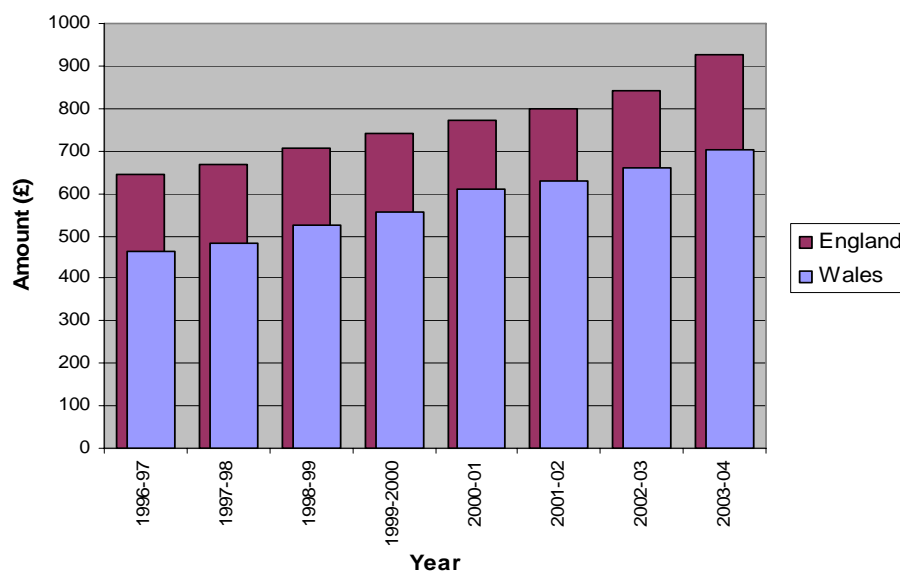
**Figure 8 : Real increase in Average Band D Council Tax in Wales**



Source: Budget Requirement Returns

Figure 9 shows the comparison of average Band D Council Taxes with England<sup>6</sup> since 1996-97.

**Figure 9 : Average Band D Council Tax, England and Wales (1996-97 prices)**



<sup>6</sup> Band D in England is property values exceeding £68,000 but not exceeding £88,000. In Wales Band D is values exceeding £51,000 but not exceeding £66,000.

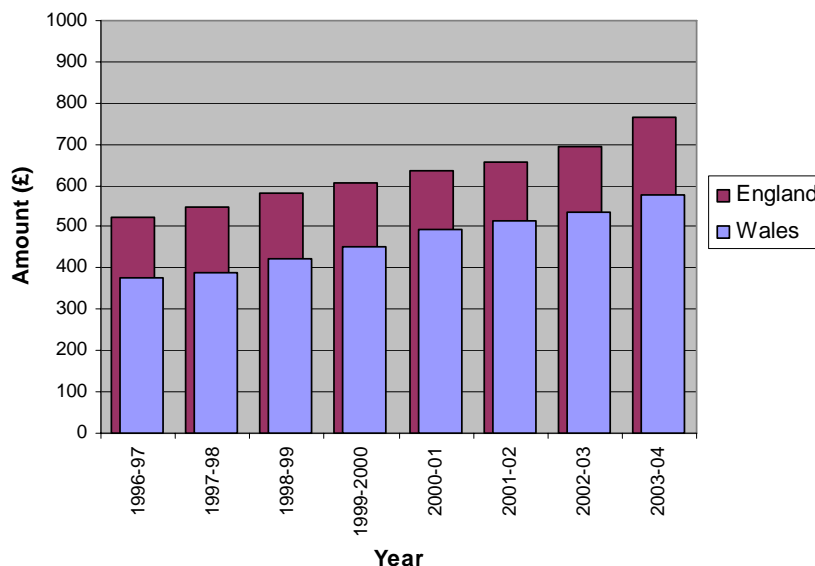
**WELSH ASSEMBLY GOVERNMENT  
SUBMISSION TO THE LYONS INQUIRY INTO LOCAL GOVERNMENT**

**ANNEX A**

Source: Local Government Financial Statistics England No. 14 2003 / Budget Requirement Returns

Average Council Taxes in Wales have in the past been quoted as Band D because the legislation which implemented the Council Tax has 'enshrined' Band D (9/9) as the band to be used as the basis of calculation for all of the other bands. Band D is used here for comparison purposes with England. However, readers should note that only 15% of chargeable dwellings in Wales fall into that band. The majority of Welsh properties fall into Bands B (7/9) and C (8/9). Figure 10 therefore shows the actual average Council Tax paid.

**Figure 10:** Average Council Tax per Dwelling, England and Wales (1996-97 prices)<sup>7</sup>



Source: Local Government Financial Statistics England No. 14 2003 / Budget Requirement returns

<sup>7</sup> Figures for Wales are adjusted for exempt dwellings to be on a comparable basis with England.