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Bringing
Accountability
back to
Local Government

Cyril Taylor, GLC

'What need we fear who knows it, when none can call our power to account?'

— Lady Macbeth

Even those who are unemployed should be subject to the residents' tax since unemployment benefit could be increased to allow for the payment of the residents' tax and thus the unemployed would be spending their own money to pay for the residents' tax and become more concerned with local government costs.

6. Reform the welfare system

Perhaps the most important ingredient of any radical reform of the rating system would be the abolition of domestic rate rebates and of the other myriad benefits; and their replacement by a single tax-credit payment based on a family's income and needs. If even the poorest families paid their rate bills from their tax credits, they too would begin to make council expenditure their concern, and be given a real incentive to vote in local elections. Why the delay continues in consolidating the tax system with the welfare system is a mystery.

7. Give more freedom to local authorities

Conversations with local authority leaders and chief executives suggest that the prospect of higher rate bills does not daunt them - if they were given more freedom to take decisions locally. Of course it is the ratepayer and not the councillor and executive who foots the bill. But ratepayers, under the scheme, might well be happy to trade a 20% reduction in income tax for their higher rates. And surely most of us would prefer to exercise greater control over local expenditure at a local level, rather than let Whitehall dictate?



POLICY CHALLENGE

BRINGING ACCOUNTABILITY BACK TO LOCAL GOVERNMENT

Cyril Taylor, GLC

CENTRE FOR POLICY STUDIES

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The Centre for Policy Studies is presently engaged in important, radical work on the reforming of the rates system, and the bringing back of accountability into local government.

This forceful introductory paper by Cyril Taylor, the Deputy Leader of the Opposition on the Greater London Council and a member of the Advisory Panel to the Minister for Local Government, the Right Honorable Kenneth Baker, MP, constitutes the opening shot in a campaign which in the autumn of this year will see the publication of a major policy study on the rates, entitled the 'Unaccountables', by the Centre's Local Government Study Group under the leadership of Alex Henney (author of Trust the Tenant). If you would like to subscribe to this study and receive your copy immediately on publication at a special discount, please fill in the enclosed order form.

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Central government at present funds just under 49% of the costs of local government in England - through block grants, specific and supplementary grants and domestic rate relief. Of the 51% paid for out of the rates, only 40% is paid by domestic ratepayers (ie the voters), the remaining 60% being paid by commercial ratepayers who have no vote. Thus domestic ratepayers pay only 20% of the total cost of local government services. This resulting low level of electoral accountability is made lower still by the system of rate rebates whereby less than one voter in three pays full rates.

Nor is this all. Since rates are levied on houses and flats rather than on people, many voters who are neither tenants nor owners of property do not pay rates at all. In the Greater London area, 5,210,954 people are entitled to vote, yet only 2,705,020 of them are domestic ratepayers.

In Britain as a whole, only half the 42 million electors are ratepayers, of whom a mere 13 million pay rates in full. True, many of the 21 million non-ratepaying voters are wives or husbands of the ratepayers. But it is also true that many of the non-ratepayers are also wage-earners.

Why, therefore, should we be surprised that, when residents are asked to choose between cutting local government services in order to keep down rates, or maintaining services at the cost of rate increases, they almost always prefer to maintain services? For example, in Hillingdon a recent opinion poll conducted by the local council showed that over 70% would so prefer. In Camden and Lambeth, councils who were big spenders and big rate-demanders, were returned to power in 1982. The majority of local government electors very understandably believe that they are better-off if they vote for a high-spending authority; after all, they do not pay the bill.

Another factor which renders local government unaccountable is the poor turnout in local elections. In the 1982 London Borough elections only 44% of the electors bothered to vote. How easy it is to understand why local authorities behave as though they are unaccountable!

Consider next the vexed problem of the relationship between central and local government. The former pays nearly half the cost of the latter. It is only natural that ministers try to exercise control over the ways in which the moneys are spent. Then, since current and capital expenditure of local government (nearly £34 billion in 1985/86) accounts for over a quarter of the total British public expenditure of £132 billion, the Chancellor cannot be expected to be anything else than anxious to reduce this amount - as part of his economic strategy to reduce public expenditure and transfer more resources to the private sector.

This very proper concern to reduce local government expenditure has, however, produced a gallimaufry of central government controls - arbitrary, complex, confusing and irritating. For example, the block grant, successor to the rate support grant, is in theory determined by an objective appraisal of a council's need to spend on the one hand, and its resources on the other. But unfortunately, local authorities who believe the Grant Related Expenditure Assessment (GREA) to be fair are few and far between. Local government leaders spend their time running to ministers with begging bowls.

Because GREA failed to reduce local government spending, the system of block grant penalties was introduced, whereby councils are 'fined' if they spend too much (effectively losing their block grant). But this is even more confusing and arbitrary than GREA. Some authorities' penalty levels are actually lower than their GREA levels!

No wonder that this sanction did not work. The next step was to introduce rate-capping. Ministers now find themselves embroiled in the detailed financial management of 18 local authorities.

The current system is unsatisfactory. Expenditure by local authorities is not being reduced. And their relations with central government have deteriorated as the latter continues to take more and more powers. The increasing frustration felt by councillors is making it ever more difficult to recruit good candidates to stand for election to councils. It has proved particularly difficult, for example, to find candidates for the new ILEA to be elected in 1986. In some areas, Conservative Associations are even advertising for council candidates.

The time has therefore come for the Conservative Party to seek a radical solution to the problem of how to reduce local government expenditure, achieve value for money - and at the same time lessen the control of central government over day-to-day decisions of councils. Decision-making must be brought closer to the local elector and taken out of the hands of Whitehall and Quangos. The way to do this is to make local authorities more accountable to the local electorates.

1. Reform the ways in which councillors are elected, and rates collected.

At present, councillors are elected en bloc in London Borough and County Council elections, to serve a four-year term all together. In district elections, however, councils have an option. They can elect one-third of their number each year or all of their number once every three years.

The system of holding one election every four years to elect all councillors at the same time has led to abuses. Councils make savage rate increases in their first years of office, and more modest ones in the last year - hoping that electors will have forgotten their earlier sufferings.

All councils should therefore elect a quarter of their number each year, with councillors serving a four-year term. In this way, their actions would be subjected to annual reviews by the electorate, and more responsible fiscal behaviour would be encouraged. True, election expense would be increased. But the extra cost of annual elections would be offset against the savings resulting from there no longer being any need for special by-elections to fill casual vacancies.

Conversations with Chairmen of Conservative Associations suggest that, far from opposing such a reform, they would welcome the challenge of annual council elections. Elections are the life-blood of politics; they revitalize party organisations.

2. Separate rate bills from council house rents - and preceptors from boroughs.

The present system of rate-collection for council houses is not conducive to electoral accountability. Council tenants have their rates consolidated into their weekly rent bills and many of them are thus quite unaware of the level of rates. Similarly, the bills of preceptors such as the GLC and ILEA are consolidated into the local borough rate. This lets the preceptors hide from the local electors behind the cloak of boroughs or district councils.

The simple way to solve these problems would be to bill council tenants separately for their rates and rents, and to bill all ratepayers separately for local rates and preceptor demands. Boroughs and districts could still be responsible for collecting all the rates since, if preceptors collected on their own account, considerable extra expense would be incurred (£20 million in London for each precept). However, since ratepayers would need to make out separate cheques for each preceptor as well as for the borough, they would become very much more aware of the rates levied by the different bodies.

3. Give a second vote to commercial ratepayers

It is grossly unfair that commercial ratepayers pay 60% of rate-borne council expenditure and yet have no votes. In London there are nearly 680,000 non-domestic ratepayers (hereditaments). If these ratepayers were given a 'business' vote (in addition to their personal vote), the outcome of many borough elections would be influenced. Commercial ratepayers once did have a second vote, and this should be given back to them.

4. Cutting income tax through the abolition of block grant, GREA, targets and penalties

There can be little doubt that if more local government costs were paid for locally, out of the rates, more local electors would make the connection between high council spending and high rate bills - and turn out at local elections.

At present, the grants from central government to local authorities in England total £11.8 billion (£2.6 million specific and supplementary grants: £9.2 million rate support grants). This vast sum should be phased out over a transition period of five years and replaced with a much smaller - perhaps £5 billion - grant given only to the poorer authorities whose resources are scant. It would effectively become an equalisation grant similar to the one currently operating in Inner London except that the central government would top up the poorer authorities.

As block grant is phased out, income tax should be cut. A £6 billion reduction in the rate support supplementary grants would finance a cut in the standard rate of income tax of 6p - ie a 20% reduction from current levels.

Of course, rates would have to mount in order to offset the loss of the block grant and local authority expenditures would not automatically be cut. But is it not a reasonable presumption that, since local electors would be spending more of their money to meet rate bills, they would be anxious to reduce wasteful local expenditure? And would not local electors who are paying more to councils - and less to government - be likely to vote in local elections for the party which pledged to keep rates down? In that case, the net effect of the substitution of a cut in income tax for a cut in block grant would be to reduce both local government and total public expenditure.

For most domestic ratepayers the income tax reduction would offset the rate increase. But obviously commercial ratepayers, who shoulder 60% of the rate burden, would view with alarm the prospect of a large increase in the rates. Three points can be made. One is that since rates are allowable as a business expense the cost of any increase is reduced by one-third on a post-tax basis (provided the company makes profits). The second is that it is time for a revaluation of capital values for rating purposes. Such a revaluation would lower rates - albeit indirectly - for many businesses in areas of high unemployment where commercial property values have fallen. And the third is that consideration should be given to a reduction in corporation tax to offset the higher rates.

Few large companies would be put at risk. But one expects that many would be spurred to campaign vigorously against profligate local government spending and to exercise their votes to throw out high-spending authorities. Small commercial ratepayers

might be given the benefit of a rate-rebate system: for example, a sliding scale of rebates for small shops with an annual turnover of less than £100,000. As a precaution, rate capping legislation should be retained to protect ratepayers in high spending areas.

5. Alternative local taxes - the residents' tax

Rightly, the Conservative Party has decided that it is impractical to abolish rates totally. Rightly, again, it considers it too dangerous to empower local councils to levy a local income tax. Imagine what someone like Mr Ken Livingstone would do with the power to levy a local income tax. Nor are local sales taxes workable in Britain. Our boroughs and districts are too small in size. Prices in shops in neighbouring streets but different boroughs would differ because of different rates in the local sales tax. Finally, it would be dangerous to transfer from local government to central government the responsibility for paying for education. Inevitably, this would lead to more central government control over schools.

Nevertheless, the fact that rates are levied on property rather than the ability to pay offends one's sense of justice.

One possible supplementary method of local government finance might be a resident's tax on all adults, excluding pensioners. The preparation of lists of residents is by no means an easy administrative task but it would not be impossible. Such a tax would not be a poll tax. Indeed the idea of linking a tax to the right to vote is repugnant. It would instead be a tax on all resident adults including foreigners and others who do not register to vote. Householders could be given a statutory duty to send to their local council once a year details of all adults resident in their house or flat.

A residents' tax (to be determined by the local council) would assure that large families with several wage earners would pay a fairer share of the costs of local services. A tax on all residents of Greater London of £100 per year per adult would bring in more than £500 million - equivalent to a 25p rate, or a quarter of the typical London borough rate (combined domestic and commercial rates).

By ensuring that all adults resident in one area paid at least some contribution to the cost of a local council's services, local electors would be encouraged to vote in local elections. Moreover, since ratepayers would pay both the domestic rate and the residents' tax, they too would be ever more inclined to vote.