An analysis of the distributional consequences of the introduction of the Council Tax in England in 1993.

An analysis of the redistribution of the local tax burden arising from the introduction of the Council Tax in England in April, 1993

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Abstract

The thesis's principal aim is to investigate the distributional impact of the introduction of the Council Tax as the Community Charge's replacement in England in April 1993. The thesis's empirical analyses consider the distribution of the local tax burden at the household level in terms of income groups, household types and geographical location. The research models the introduction of the Council Tax using a large set of data provided by the Nationwide Anglia Building Society. These data comprise details of over 75,000 mortgages granted by the Building Society between 1988 and 1990 and are sufficiently detailed to allow calculation of individual and household liability for both Community Charge and Council Tax.

The Council Tax is chiefly a property tax based on the capital value of domestic property. Because the capital value of domestic property is unevenly distributed both geographically and across income groups, necessarily the Council Tax's burden is also distributed geographically and across income groups. Previous distributional analyses of the impact of the Council Tax have been unable to consider this spatial distribution. However, the Nationwide Anglia data allow analysis of this spatial distribution. The thesis considers a number of influences on the tax's distribution - the use of capital value as a tax base; the operation of the Revenue Support Grant; the Council Tax Transitional Relief Scheme; the Council Tax's hybrid personal / property tax design; as well as the distributional implications of the transition to a form of property tax from the Community Charge's flat-rate poll tax.

The final chapter uses the implications of the preceding distributional analyses to consider the Council Tax in the longer term as part of a broader solution to the historic difficulties of the overall local government finance system.

Contents

List of Figures

List of Maps

List of Tables

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Chapter One

Introduction

1.1 The Subject of the Thesis

This thesis is about the local tax bills which households pay in return for their local government services. It concerns how local Council Tax bills vary between different types of households, with different incomes, living in different parts of England. The thesis analyses the distribution of the Council Tax spatially, across income groups and across different types of households. Although Council Tax is popularly regarded as a broadly equitable tax, this perception is inaccurate. The thesis shows that the distribution of the Council Tax is far more complex than has been previously recognised. This complexity stems from two factors. The first factor is the hybrid design of the Council Tax. The Council Tax has two elements, a personal element and a property element. *A priori*, the expected distribution of the Council Tax should be a combination of a personal tax distribution (similar to the Community Charge) and a property tax distribution (similar to that under rates). This thesis demonstrates that these hybrid elements produce a distribution which is more complex and significantly dissimilar to the *a priori* expectations.

The second factor influencing the Council Tax's distribution is the use of capital value as a tax base. Because capital value is unevenly distributed across space, the Council Tax's distribution is also inherently geographically variable. Empirical studies of the spatial distribution of the local tax burden have been surprisingly few though a number of analyses have been produced for the Community Charge (e.g. Barnett, Levaggi and Smith, 1990; Burnett, 1989, 1990; Paddison, 1989). Data from the Nationwide Anglia Building Society used in this thesis allow the calculation of Community Charge and Council Tax bills at the household level. The aim of the research is to use these data to analyse the distribution of the Council Tax across a number of dimensions, particularly in terms of income groups and in terms of different types of household. Because the dataset is so large it also offers the unique opportunity to model the distribution of the Council Tax on a spatial basis at the same time as modelling the burden on income groups or different type of household. This allows a much more detailed analysis of the spatial distribution of the tax burden than has been previously possible. As well as allowing assessment of the distribution of the Council Tax, the Nationwide Anglia data also allow analysis of the redistribution of the local tax burden implicit in the transition from the former Community Charge to the Council Tax.

The lesson learned by central government from the three years of the Community Charge is

that tax distribution, particularly that of a highly visible tax paid from disposable income, is vitally important. The essential purpose of the Community Charge was to effect a radical redistribution of the local domestic tax burden in order to force local government's to change its fiscal behaviour. The Community Charge's distribution, popularly characterised as levying the same tax on the Duke of Westminster as on his dustman, came to be seen as 'unfair'. The apparent basic inequity of the Community Charge undoubtably contributed to the tax's failure to win popular acceptance and therefore ensured its ultimate demise. At the heart of the discussion about the introduction of the Council Tax was the need for its distribution to be popularly acceptable, in other words it should be seen as 'fair'. Ironically, presenting the Council Tax as a modernised, fairer version of the rates - the tax replaced by Community Charge - helped gain the tax its present acceptance. This thesis assesses how far this aim has been achieved.

1.2 Structure of the Thesis

Essential to any comprehensive analysis of the current state of local government finance is a theoretical and historical perspective on its long-term evolution. The design of local taxes is underpinned by an extensive theoretical literature which bridges political philosophy and public finance economics. Chapter Two reviews this literature, focusing on the relationship between local taxation and the twin objectives of distributional equity and economic efficiency. In particular, the distributional consequences of different approaches to local taxation are considered. The translation of these theoretical issues of distribution into policy is considered in a discussion of the contrasting approaches to local taxation implicit in the rates system, the Community Charge and the Council Tax. Chapter Two also considers the numerous inquiries into local government finance, in particular the Allen Report which found rates to be a regressive form of taxation (Allen Committee, 1965) and the Layfield Report (Layfield Report, 1976) which made a number of radical proposals, including that rates be augmented by a local income tax. This historical analysis shows that the continuing crisis in local domestic taxation is a symptom of a wider long term failure to reform the local government finance system to meet the changing demands being placed upon it. The analysis shows the Community Charge as a radical central government solution to these long term problems and the Council Tax to be a hurried response to the Community Charge's failure. The chapter concludes that the Council Tax fails to address the long term problems of local government highlighted by the earlier analyses.

Having established a broad context for the research, the thesis moves on to set out in detail the approach adopted to the assessment of the distributional effects of the Council Tax. Chapter Three examines the likely influence of the hybrid nature of the Council Tax upon its distribution across income groups, across different types of households and on different regions. The chapter focuses upon the interrelated issues of the influence of capital value

on the spatial distribution of the tax burden and secondly its influence on the tax's distributional equity. The use of capital value is contrasted with the previously used local tax bases, rateable value and taxable adults. The practical and theoretical difficulties caused by interaction of the Council Tax's design with the other components of the local tax system, in particular the grants system, are discussed. Finally, Chapter Three examines the issue of the redistribution of the local tax burden implicit in moving from the Community Charge to Council Tax.

Chapter Four takes up the themes of the previous chapter in its discussion of the thesis's methodological approach to empirical analysis. The Nationwide Anglia data, the thesis's modelling technique and other methodological issues are discussed and evaluated in the light of the approaches taken by other household level studies of local tax distribution. There have been few previous spatial analyses of the Council Tax and those that have been made have been confined either to very limited regional figures (e.g. Giles and Ridge, 1993) or to micro-level studies of individual urban areas (e.g. Longley, Martin and Higgs, 1993) rather than analyses at the household level. The scarcity of geographical analyses of the Council Tax focusing on the household level is largely due to the lack of appropriate data. To calculate Council Tax bills for individual households makes severe demands in terms of data: data on the capital value of individual households' property, household composition, income and local authority location are needed. The empirical analyses presented in this thesis are based upon data provided by the Nationwide Anglia Building Society. These data comprise anonymised but detailed information on 75,000 mortgaged households distributed across England. This thesis is the first to evaluate local tax impacts at this level of detail simultaneously both at household and geographical levels.

Chapters Five to Eight present detailed empirical analyses of the distribution of the Council Tax based upon results of the modelling technique developed in the previous chapter. Chapter Five presents upon a 'standard' analysis of the spatial distribution of the tax in terms of income groups and household types. In doing so Chapter Five raises a number of issues which are analysed empirically in the subsequent chapters. In Chapter Six the effect of the Council Tax's interaction with the grant system is considered, focusing particularly on the differentiated distributional impact of differences in taxable resources at the regional level. Chapter Seven considers the effects of the Council Tax banding system in the context of the geography of capital value. In particular, the circumstances in which the Council Tax is levied more as a flat-rate household tax than a more progressive property tax are examined. In the final empirical chapter, Chapter Eight, the immediate distributional implications of the shift from Community Charge to the Council Tax in 1993 are examined. To carry out this analysis the Council Tax Transitional Relief Scheme which accompanied the tax's introduction is modelled. The effects of the scheme are then considered in some detail

Chapter Nine draws together the conclusions of the previous chapters and discusses their implications both in terms of previous studies of the Council Tax and in terms of local taxation more generally. The chapter concludes with a brief discussion of the Council Tax's contribution to the long-term prospects for local government finance and local government as a whole.

Chapter Two

The Council Tax in theoretical and policy context

2.1 Introduction

Chapter Two establishes both a theoretical and a policy context for the Council Tax. This context is essential for the detailed analysis of the Council Tax which is the subject of the next chapter. The first sections of this chapter consider the concepts of public finance theory and their application to the analysis of local taxation. The analytical terms of public finance theory are used to examine the rates system, the Community Charge and, more briefly, the Council Tax. In the third section the wider policy context of each tax is considered. Particular attention is paid to the criticisms of the rates and of the broader local finance system expressed in 'Paying for Local Government', the 1986 Green Paper which proposed the Community Charge. This allows the three different distributional effects of these different approaches to local taxes in the rates, Community Charge and the Council Tax to be considered. The final sections look forward to the following chapter and briefly consider Council Tax as a solution to the broader, long term problems of local government finance noted in previous sections.

2.2 Analytical Concepts in Public Finance Theory

This section shows how public finance theory provides an appropriate approach to the analysis of local taxation. The approach provides a set of concepts which, although abstract, allow useful analytical distinctions to be made between different types of local taxes and expenditure. These distinctions relate to the distributional impacts of these different types of taxes and expenditure. Traditional public finance theory regards public finance as having four functions - allocation, distribution, stabilisation and growth (Musgrave, 1959). The latter two functions are usually associated with central government rather than local government so this section concentrates on the allocation and distribution functions. The first part of this section focuses on the allocation function and its relation to public goods theory. This discussion goes on to examine distribution function and the related issues surrounding distributional equity.

2.2.1 **Efficiency and the allocation function** : Public finance theory regards the object of the allocation function as the pursuit of optimal economic efficiency in the allocation of resources between public and private provision, also known as Pareto efficiency. A Pareto efficient distribution allocates a community's resources so as to provide the goods and services which best match the preferences of the members of a community. A distribution is Pareto-optimal when it is impossible to reallocate resources

to improve the welfare of one individual without making any other individual worse off. The provision of public goods is an essential element of the allocation function. This stems from the recognition that an allocation of resources without provision of public goods less is efficient than an allocation which includes public good provision. This arises because the provision of public goods can meet the preferences of more individuals without undermining the welfare of others, i.e. a Pareto-optimal allocation of resources can be made. An allocation of resources made solely by a free market would either provide public goods at a sub-optimal level or would not provide them at all. Public goods would not be provided because they display a set of characteristics which cause market failure, i.e. public goods have characteristics which prevent them from being provided at optimal levels in a free market.[1] These characteristics are :

a. Joint supply (or non-rivalness in consumption) : Once provided, a good can be supplied to an infinite number of marginal consumers at no extra cost and with no deterioration in quality or quantity of the good.

b. Non-excludability (or Free-ridership) : Once provided to one user, other users cannot be prevented from consuming the good or service. In other words the good cannot be packaged for exclusive supply to individual consumers.

c. Non-rejectability : Once provided, a good's consumption is evenly distributed, even to those who do not wish to consume.

The perfectly free market fails to provide public goods because it is irrational for any individual consumer to pay for the provision of a public good. Once the good is supplied, free-ridership is possible, thus it is more rational for a consumer to allow another consumer to pay for the good since once provided the first consumer cannot be prevented from enjoying the good's benefits.[2] It is equally irrational for a supplier to offer to provide a good which is non-excludable, i.e. over which the supplier has no control over consumption in order to enforce payment. In terms of public finance analysis, one of the key roles of government is to ensure greater allocative efficiency by organising the production of public goods.

If public provision of public goods can increase society's overall welfare, there remains the analytical problem of how to establish the appropriate output levels and prices. The main difficulty is finding a non-market analogue for the free market's price mechanism. Both

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[1] For a full technical specification of these characteristics, see Musgrave, 1959; Musgrave and Musgrave, 1989; Samuelson, 1954.

[2] For further discussion of the free-rider problem, see Olson and Zeckhauser, 1966; Oates, 1972.

taxes and fees and charges can be employed as price mechanisms. The solution most commonly proposed by theorists is to use an analogy with the perfect competition model of the free market. The market for public goods is assumed to behave much as a free market where consumers have preferences for different public goods and where taxes are the analogue of prices. Consumers are therefore assumed to be indifferent between similar combinations of public goods at similar tax-prices. This analogy views the allocation between private and public goods as evolving towards a stable and optimal equilibrium. There is an extensive and complex literature based on the work of Wicksell and Lindahl (e.g. Wicksell, 1958; Lindahl, 1919) which discusses the allocation and pricing of non-market goods. This literature will be only briefly dealt with here emphasing the aspects of the underlying concepts which are important for the analysis of local taxes.

A fundamental assumption underlying the allocation function is the view of public goods as beneficial. In this view the tax-price of a public good is in direct proportion to the benefit derived from the consumption of the good, in other words a beneficial tax closely resembles a price. In reality, many benefit taxes are commonly known as charges or fees e.g. for parking meters, charges for swimming pools etc. In public finance analysis this necessitates a further assumption that the benefit which consumers gain from their consumption of public goods can be measured and known by a public good provider, usually a form of government. For Pareto-optimality the price of a public good must precisely match the consumer's evaluation of the benefit derived from the good's consumption. By implication, the provider of public goods must be aware of a consumer's preferences in order to assess the most efficient allocation of resources. Where users of public goods can be charged a fee at point of use, an approximation to the Pareto-efficient allocation can usually be achieved.

The main problems of allocation arise with public goods that cannot be charged for at point of use. For these a tax must normally be adopted. A tax is a levy on defined sections of the population which, at best, can act as a surrogate for use and preference revelation, although taxes will never precisely match a tax payment to the benefit derived from a public good's use. One of the principal obstacles to a perfectly efficient allocation of resources using taxes is their inaccurate evaluation of the benefit derived from public good consumption. Even assuming accurate preference revelation (a further difficulty dealt with below), a government could not set individual tax costs of a public good equal to each consumer's evaluation of the marginal benefit gained from public good's consumption (an optimally efficient solution). This is because taxes are set at a standard rate and cannot be fine-tuned to reflect individual benefit evaluation. Hence provision of a public good cannot be adjusted to keep the total of prices offered by consumers and the marginal cost of production in equilibrium.

Free-ridership further ensures that there is an incentive for consumers to understate (or not state at all) their preferences for public goods. Public goods provision based on taxes therefore requires some form of non-price preference revelation mechanism, usually voting, to make choices between different tax-prices and combinations of public goods. At this point the democratic and political principles of a community become crucial to public finance since these principles determine how decisions about public goods are made.

2.2.2 **Approaches to non-market decision-making** : Non-market decision-making is a particular concern of Public Choice Theory. Public choice theory utilises an approach to political behaviour based on an analogy with neo-classical economics (Downs, 1957, 1967; Buchanan and Tullock, 1962; Niskanen, 1971). The motivation for participation in government is the provision of goods and services which cannot be provided by individuals acting alone. The theory recognises that political processes are imperfect in translating individual preferences and tax levels into collective decisions. Political processes have to contain safeguards to protect citizens from self-interested government and exploitative electoral majorities. The individualist, explicitly normative and liberal (in parts, libertarian) agenda espoused by some public choice theorists, notably those of the 'Virginia School' (e.g Buchanan, 1975, 1977; Buchanan and Tollison, 1972; Brennan and Buchanan, 1985) has influenced public policy on both sides of the Atlantic, for example, California's Proposition 13 is very much in the spirit of public choice.[3] The Public Choice approach clearly underpins the Community Charge legislation, as will become clear in later sections (See also Bennett, 1987; Gibson and Watt, 1989; Hepple, 1989; Quirk, 1986). Although not discussed here, there is a significant literature offering a critique of the fundamental bases of the public choice approach (e.g. Cullis and Jones, 1987; Goodin, 1982; Kogan, 1973; McLean, 1987)

A related theory of non-market decision-making, often used by public choice writers, is the median voter theory (Black, 1948). The theory's main contention is that in a representative democracy the party with the policies which accord closest to those of the median voter (the voter whose preferences are positioned in the middle of the distribution of all voters preferences) is likely to be electorally successful. In terms of the median voter theory, a community provides itself with a benefit good when the median voter (and therefore a majority) derives a benefit equal to the cost of the public good that is charged through taxes, e.g. the valuation of the provision of a public park. The allocative outcome arising from the median voter preferences will be efficient if it maximises the number of individuals whose preferences are satisfied by provision at the given tax cost. Both public choice theory and the median voter hypothesis will be referred to in subsequent sections.

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[3] For examples of the public choice approach to tax reform, see Brennan and Buchanan, 1980; Brennan, 1988; Buchanan, 1986a.

The Tiebout Hypothesis (Tiebout, 1956) represents an alternative approach to the preference revelation problem. Tiebout introduces the existence of different local jurisdictions each with different possible levels of provision and tax rates. The Tiebout hypothesis suggests that an efficient allocation of resources is possible by consumers migrating to communities where the mix of local public good provision and tax-price levels meet their particular tastes. Preferences are expressed through a 'fiscal migration' mechanism in which residents 'vote with their feet' and move to the community which best meets their preferences for public goods and tax levels. The Tiebout model is an abstract model of non-market decision-making which has attracted a considerable theoretical and empirical literature which is beyond the scope of this thesis.[4]

2.2.3 **Equity and the distribution function** : The second function of public finance is the distribution, or social policy, function. Whilst the allocation function strives for efficiency, the distribution function (usually) strives for equity by manipulating the fiscal system. The fundamental differences in the objectives of the allocation and distribution mechanisms are reflected in their underlying taxation principles. The allocation function's benefit principle seeks to maximise efficiency by matching tax-prices to the benefit derived from public goods. The distribution function rejects this principle in favour of seeking distributional equity, however defined. Necessarily the distribution function also rejects the assumption that the prevailing distribution of resources is equitable. The distribution function seeks equity through two means; through ability to pay taxation and through redistributive expenditure or provision. Redistributive expenditure or provision is made in order either to benefit particular groups with special needs, or to benefit particular areas within a tax-paying community.

The distribution function's use of the ability to pay principle means that tax is not levied in relation to the benefit received from public goods but in relation to the ability of an individual to pay. This does not imply that efficiency considerations are irrelevant. Instead the requirements of distributional equity and efficiency may conflict, for example using benefit taxation to finance redistributive expenditure is usually self-defeating. The importance of the relationship between the type of expenditure and the type of tax used to finance it will become evident in later sections. However, it is already clear that the type of tax used to finance redistributive services will differ from that used to finance benefit services. The second important assumption which underlies the distribution function is that an implicit set of normative or ethical judgements exists. Firstly, the 'equity' of the existing distribution of resources has to be judged and second, the 'equity' of the taxation and expenditure patterns imposed by any redistribution function must be evaluated. This

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[4] For a review of the empirical work on the Tiebout model, see Dowding, John and Biggs (1994). For reviews of the theoretical Tiebout debate, see Wildasin, 1986; Zodrow, 1983. For a survey of work relating to broader social and economic contexts, see Whiteman, 1983.

issue is associated both with the broad political economy of a state as well as with the narrower issues of tax theory which deal with horizontal and vertical equity.

Equity lies at the heart of the redistribution function. Adam Smith included equity as one of his four canons of public finance, the other canons being certainty, convenience and economy (though adequacy is now usually added) (Smith,1776). Smith's concept of equity comprised two elements - the benefit principle and the ability to pay principle. An important distinction between the ability to pay and benefit principles is that whilst the benefit principle expresses a direct connection between a tax and the good or service it finances, the ability to pay principle does not. Ability to pay tax revenue is distinctly separate from the benefit of expenditure which it funds. An ability to pay tax raises a given total of revenue by imposing its burden upon taxpayers in relation to their ability to pay, irrespective of the benefit which accrues to individual taxpayers. Implicit within the ability to pay principle are the related principles of horizontal and vertical equity. Horizontal equity implies that those with the same level of ability to pay should pay the same in tax, whilst vertical equality implies that those that have a greater ability to pay should pay more. These principles, though simple, have very significant implications for local taxation and expenditure.

Two further issues are associated with the ability to pay principle. As with rules about non-market decision-making, these issues can only be resolved by reference to the political philosophy of a state. The first issue is the terms in which ability to pay can be measured. The second issue is the degree to which tax rates should differ between those with different abilities to pay. Ideally an index of ability to pay would include all components of economic welfare such as wealth, income and consumption. At present, earned income is the most commonly used index though there is considerable debate regarding the relative merits of other indices (King, 1984). How these measures are defined and the degree to which tax rates should differ between those with different abilities to pay remains a contentious political issue. Differences on this issue in part define differences between political parties. This is reflected in local taxation, during the passage of the Council Tax legislation through parliament the government was forced to add a higher tax rate band, Band H, at the top of the capital value spectrum to meet demands for the tax to be more progressive.

2.2.4 **Public Finance and local government** : The public finance analyses dealt with thus far have been in terms of central government provision of public goods over an entire state. There are a number of reasons for localised provision of public good by a system of sub-central authorities. The most obvious justification for localised provision is that some public goods have benefits which are localised in nature. For example, the benefits from coastal defences accrue overwhelmingly to a particular area. For most public goods, the

area over which benefit accrues is variable, known as tapering (Lea, 1978; Tiebout, 1961). Buchanan (1960) and Musgrave and Musgrave (1976), amongst other authors, have suggested that local areas should be organised around the range of local public goods over which benefits of public goods are broadly uniform. Following from this recognition are two further debates firstly as to whether a public good should be provided nationally or by a sub-central authority, and secondly regarding the appropriate size of the sub-central authority to provide non-national public goods. Both these issues relate to the degree to which the benefit of a public good can be spatially limited - the benefit from coastal defence has a limited range whilst the benefit from improving part of a motorway is obviously much more diffuse. The more spatially confined the benefit of a public good is, the more that local provision is appropriate. For some public goods, provision is nationally required but is most efficiently provided by individual authorities, e.g. street-lighting.

One of the strongest theoretical arguments for local provision of public goods is the wider variety in type and level of public good provision possible with sub-central provision. This variety can be more efficient since it should better reflect the variety of local preferences within a state than a national, uniform output of public goods. There is, of course, a trade-off between an efficient response to local preferences and efficiency gained through economies of scale of public good production at a supra-local level. The issues surrounding the relative merits of responsiveness and efficiency in public good provision are subject to continuing theoretical and practical debate, as demonstrated by the current structural reorganisation of British local authorities.[5]

In addition to these more theoretical consideration is the realistic likelihood that local government is better placed to judge the costs and benefits of a public good's provision in a particular area. In other words, there is a more accurate fiscal calculus with local provision than with central provision where the relationship between marginal costs and benefits will be less direct. Following from this is the expectation of greater efficiency in the provision of local goods (Oates, 1972). Oates also suggests that a system of local provision is likely to allow greater innovation in the means of provision and delivery than a centralised system since the costs of experiment in a local area are much lower than on a national scale. The efficiency argument for localised public good provision is reflected in the models proposed both by Buchanan (1965, 1967) and by the Tiebout Hypothesis (Tiebout, 1956). The Buchanan model proposes that individuals within a jurisdiction will cooperate to form 'service clubs' to meet their collective preferences for public goods. This proposal is efficient because public goods will only be provided when the marginal benefit from public provision of the good is greater than that of private provision or from the good not being provided at all. In the Tiebout hypothesis's inherently spatial vision of local public good

[5] For a review of the issues surrounding efficiency and local authority size in the British context, see Newton, 1982; Travers, Jones and Burnham, 1993.

provision, efficiency is gained through migration to the community which best matches a consumer's preferences for public goods. A less directly economic argument for sub-central provision, although one which is strongly supported by the public choice approach, is that democratic control is far easier to exercise at the local level - local residents are more likely to address their grievances initially to their local authority councillor than their representative at the national level.[6]

The existence of local government makes it clear that the benefits of public goods are spatially distributed. It is therefore equally clear then that, in reality, public goods rarely fully comply with the Samuelson conditions noted previously. If the benefit of a public good is limited in range and the level of benefit diminishes towards the limits of that range then the practical implementation of a benefit tax becomes much more difficult. The concept of benefit taxation is based upon a public good's tax-price being proportional to the benefit accrued from the good's consumption. Unless the tax-price is tailored exactly to match the spatial distribution of a public good's benefit then the theoretical Pareto-efficient allocation of resources is impaired. As will be seen in greater detail later, the only practical solution for a benefit tax is a flat-rate charge which necessarily makes the implicit assumption that the benefit of public good provision is evenly distributed across space and across taxpayers, and that no redistribution takes place. In circumstances where a local authority provides more than one public good, then the geographical area over which each good is produced for optimal efficiency is likely to differ. Without a single authority for each public good, implying a system of multiple local jurisdictions is required, the benefits of spatially distributed public goods spill over the boundaries of one authority (spillover) into a neighbouring jurisdiction (spillin), creating a positive or negative externality.

In reality, British local government provides services which go far beyond the beneficial public goods implied by the allocation function. The majority of local government expenditure is on services which are redistributive. Though there is a general consensus that provision of local public goods is a legitimate function of local government on grounds of efficiency, traditional public finance suggests that explicitly redistributive policies operated at the local level are likely to be both inefficient and unsuccessful. An authority using income tax to implement an independent local redistribution policy would find the better off members of the community migrating to lower tax areas and an immigration of poorer newcomers. Ultimately the authority would be left with lower taxable resources but with greater expenditure need. Empirical evidence of fiscal migration is difficult to discover although both aggregate and micro-level studies suggest that such migration might occur (Dowding, John and Biggs, 1994). However, this and other theoretical difficulties induced by local redistribution brings most authors to conclude that redistribution should

[6] For a broad rationale for British local government, see Jones and Stewart (1983). For a detailed review of the economic arguments, see King (1984).

only be carried out under a single, national policy formulated and implemented by central government (Oates, 1972; Foster, Jackman and Perlman, 1980; Musgrave and Musgrave, 1989). A contentious issue within this debate is the balance between the size of areas within which redistributive policies are possible and the efficient and responsive delivery of local services is possible. Very large sub-central government units - states or regions - may be capable of carrying out redistributive policies but may be too large to take account of local preferences in the provision of other local services. However, though a great deal of British local government expenditure is redistributive in nature, this expenditure is overwhelmingly carried out in line with central government policy and using central government grants, rather than local revenue. Pauly's (1973) dissenting view is that redistribution could be a local public good which the wealthy see as a benefit good. The benefit derived from the relief of poverty is non-rival and non-excludable and is therefore a local public good, with potential positive externalities of e.g. a reduction in local crime. However, this theoretical aspect of the relief of poverty is rarely fully supported in practice.

As Bennett (1980) points out, the rejection of local redistribution policies blurs two different issues, the first is whether it is appropriate that regional or central government should operate policies which are geographically redistributive and secondly whether local authorities can operate independent, local redistribution policies. There are many strong arguments for spatially redistributive policies since many of the essential elements of public finance are spatially distributed - preferences for public goods, revenue raising abilities, expenditure need, relative economic well-being. The economic growth and recession cycles are also spatially differentiated, implying the need for spatially policies to fulfil the stabilisation and growth functions of public finance. Spatially implemented redistributive policies are usually operated by central government, there are few, if any, which are operated autonomously by local governments using local tax resources.

The debate surrounding redistributive expenditure is matched by a similar debate on the merits of benefit and ability to pay local taxation. It has been suggested by some public finance theorists that local taxes should not be progressive at all and that the benefit principle should be implemented as far as possible through far greater use of fees and charges. This view holds that the regressiveness of local taxation should not be considered important since the overall degree of progressiveness or regressiveness of an entire fiscal system is the important issue, considering a single tax in isolation is inappropriate (e.g. Foster, Jackman and Perlman, 1980), as Kay and King (1983) suggested :

> 'What matters from the point of view of social and economic policy is not the progressive or regressive impact of every individual element of that tax system, but the impact of that system as a whole. It is perfectly possible,

> and may be necessary to have a regressive local authority tax system within an overall progressive tax structure.'
>
> Kay and King, 1983, p.165.

This view was particularly relevant during the Community Charge's existence. However, it appeared to be given little popular weight during that period. As Foster, Jackman and Perlman recognised, 'The main disadvantage of such a tax [a poll tax] is that it offends against common perceptions of equity.' (Foster, Jackman and Perlman, 1980, p.233).

There are few points at which the world implied by public finance analysis resembles reality. The failure to consider fully the spatial dimension has been noted, as has the fact that many local public goods are redistributive rather than the beneficial public goods largely implied by public finance analysis. In reality, the tax-prices of public goods are not readily set to reflect individual assessments of a public good's marginal benefit - the variety of tax systems used in the past five years in Britain have all represented different means of measuring the relationship between the benefit derived from public good and appropriate tax to finance that expenditure. Public finance analysis implies a form of direct democracy in which consumers regularly express their preferences for the type and level of output of individual public goods. In the reality of representative democracy, consumers have a single, irregular vote which is intended to express preferences for type and output levels for all local public goods. One of the fundamental criticisms of public finance theory is also its focus upon economic rationality. The concentration on a form of rationality which is dictated by monetary considerations fails to recognise that provision of public goods stems from a perception of need, a concept which is inherently the result of value judgements. Decisions to allocate goods to private or public provision result from political decisions rather than positive notions of efficiency.

Public finance theory is used here to provide an essential conceptual base and vocabulary to analyse and evaluate the nature of the different local taxes which have been implemented in Britain. Later sections show that public finance analysis, particularly in relation to Public Choice theory, is not purely of academic interest but has explicit and direct relationship with the design and implementation of actual policy.

2.3 Local Taxation in Practice - Rates

The following sections trace the historical development of local taxation from the rates to the Council Tax and offers an analysis of each tax in public finance and distributional terms. The section also considers how the broader, long term political and economic context has influenced and exacerbated the problems of local finance.

The rates, supplemented by fees and charges, were the principle source of revenue for local

government in one form or another from 1601 (other than the twelve years of additional assigned revenue following the 1888 Goschen reforms) until the introduction of the Community Charge in 1990. The tax was intended to fall lightly on the poor who tended to live in overcrowded properties of low rental value. Foster, Jackman and Perlman (1980) note that historically there were also numerous different 'rates' levied for different purposes but which were based upon the benefit principle. These beneficial rates were levied upon specific properties in relation to local public expenditure which directly enhanced a property's value or benefitted a property's inhabitants. It is clear from this that there is an evident and historic correspondence between, on the one hand beneficial taxation and beneficial expenditure, and on the other hand redistributive expenditure and ability to pay taxation. Over time administrative convenience encouraged the benefit and ability to pay principles to become intertwined. By the time rates were consolidated into a single tax in 1925 a property's rateable value was supposed to reflect both the inhabitants' ability to pay as well as the benefits from local services which the property and its inhabitants enjoyed, a form of combined property and income tax. Foster, Jackman and Perlman reject Cannan's (1927) claim that the cost of providing services was roughly proportional to a property's value saying :

> 'This was of doubtful validity when [Cannan] wrote, but there are no services, even those most ordinarily considered as beneficial, of which this can be said now.....Cannan's equation, if we may call it so, is a most convenient fiction but it simply is not true.'
>
> Foster, Jackman and Perlman, 1982, p.156.

Despite a number of frequently voiced criticisms of the rates, up until the 1986 Green Paper, successive government reviews found it impossible to find a satisfactory alternative. Rates had powerful advantages, they raised substantial revenue, in 1987/88 rates were the fourth largest source of government revenue, raising £16.9bn. Rates were simple to understand and to administer, they were local in character, were difficult to evade, promoted efficiency in land use and were cheap to collect. One of the most consistent criticisms of rates was that their yield was insufficiently buoyant, i.e. the revenue from rates did not rise as prices rose with inflation. Rates' lack of buoyancy was compounded by the infrequency of revaluation surveys. Statutory revaluation surveys were due to take place every five years but more recently only took place in 1956, 1963 and 1973, the other surveys being cancelled largely for reasons of political convenience. Also the rapid contraction of the rental market as owner-occupation increased and the distortion introduced into the remaining rental markets by subsidised public housing and by local authority rent controls gradually compromised the use of imputed rental value as a basis for valuation. As a result of these long term changes rateable valuation became based on increasingly hypothetical estimates (Wright et al., 1974).

A further problem with rateable valuation was the lack of any method by which uniformity could be imposed on valuations. Hicks and Hicks (1944) found that there were numerous geographically distributed errors in valuations, mainly because valuation procedure was not uniform across the country. Despite the implementation of national valuation procedures by the Valuation Office from 1950 onwards, rateable value remained strongly geographically variable. Following the 1973 revaluation survey, the average rateable value of Greater London and the South East was more than 80% above that of the North and Yorkshire and Humberside (Family Expenditure Survey, 1984), a level of variation not accounted for by differences in average household circumstances in different regions. It seemed likely that the reflection of ability to pay in rateable values would become correspondingly inaccurate, though average incomes in London and in the South East were higher than elsewhere, the variation in average rateable values were obviously much greater than that in household incomes.

The shift to capital value basis for rates was regularly proposed as a solution not only as a solution to these technical, internal problems (e.g. Layfield Committee, 1976; DoE, 1977) but also because capital valuation would easier to administer, more acceptable and comprehensible than imputed rent (Crawford and Dawson, 1982). In theory, when a free market in both capital value and rents operate fully, the two should be intimately related since a property's capital value should be equivalent to its capitalised market rent. This relationship, if it ever existed, was inevitably distorted by tax policies encouraging home ownership and by local authority intervention in the rental market. By the late 1970s there was evidence to suggest that rateable and capital values had become significantly disconnected (Foster and Lynch, 1978; Foster, Jackman and Perlman, 1980). A shift to capital valuation does not solve the problems of horizontal equity in local property taxation. Since valuations will differ across the country tax bills could vary for the occupants of identical properties in different parts of the country. Regional and local differentials in capital values are likely to be wider than rateable values so a shift to capital value may exacerbate horizontal inequity. Foster and Jackman (1982) proposed that equalisation grants should be based on local income levels so that capital values became the basis of 'within-area' local tax shares. The implications of capital valuation will be returned to in some depth in later sections.

From the mid-1960s onwards rates were consistently criticised for being a regressive form of taxation. Rateable value's rough indication of a property's occupants' ability to pay had been more closely scrutinised as the overall burden of rates grew. Following the 1963 revaluation survey the Macmillan government set up the Allen Committee to investigate the distribution of rates. The 1965 Allen Report (Allen Committee, 1965) officially confirmed suspicions that rates were a regressive tax at a time when there was a general consensus that taxes should be progressive. The Report found that the regressive impact of rates had

worsened as the burden imposed by rates had increased over the post-war period. Amongst the worst hit by rates were single adults in the lowest income group whose rates bills represented up to 5% of income after taxes and benefits. This result reflected a further problem with rates. Household rates bills made no allowance for the number of adults occupying the property. The Allen Report recognised that there were a large number of households which included individuals who had incomes but who made no direct contribution to rates. This problem was later examined by the 1971 Green Paper (DoE, 1971) which considered various 'add-on' options to take the number of adults into account but rejected them as too complex. To alleviate the regressiveness of rates, in 1966 the government gave general relief to all ratepayers through the Domestic element of the Rate Support Grant. To protect ratepayers from future rises in rates, government grants were introduced to reduce the proportion of the tax burden raised from domestic rates. In addition, means-tested rate rebates were introduced to protect low income groups. Despite the well-known deficiencies of the rates no political momentum for wider reform was established until 1986. Government reviews continued to recommend tinkering with the local finance system rather than making wholesale reform.

However, the issues raised by the Allen Report set the tone for future debates about local finance. The Allen Report recognised that local taxes should be related to the benefit derived from local services by ratepayers as well as being related to ratepayers' ability to pay. Importantly, this recognition was extended to individual ratepayers when the Report noted that:

> 'Retired people without children of school age complain that the greater part of the rates they pay is spent on the education of other people's children...'
>
> Allen Committee, Para. 48, 1965.

This implicitly supports the argument that property tax is unsuited to raise funds for expenditure on personal services. These arguments, particularly regarding the distribution of both rates bills and of the benefit derived from local services, were to reemerge in the context of the Community Charge. The incidence of rates was examined again almost a decade later by the Layfield Committee (1976). The Committee found that although the rates were regressive, rebates had succeeded in restricting the regressiveness to higher levels of income (where marginal increases in income outstripped increases in rates). Regressiveness at the top of the income distribution was regarded as less problematic, particularly when the overall progressiveness of the fiscal system was considered. The Layfield Report recommended the retention of rates on a capital value basis as a supplementary tax to a Local Income Tax.

2.3.1 Rates and the crisis in local finance

The consistent criticisms of rates were often unfairly directed at the rates system itself; many of the criticisms arose from deficiencies in the broader local finance system rather than from deficiencies in the rates. This section briefly considers the broader context of local finance and its influence upon the rates system.

The growing crisis in the economic fortunes of Britain during the early 1970s coincided with the implementation of structural reorganisation, the 1973 rate revaluation (thus redistributing rateable value) and rising inflation. This combination produced average rises in rates bills of well over 20% during 1974. The crisis thus induced marked the end of a long term trend of expanding local government expenditure stretching back into the 1950s. From the mid-1970s onwards the thrust of central government shifted from using the grant system to encourage the improvement and expansion of local services towards forcing local government to restrain its expenditure by cutting its services and improving efficiency. In response to the public outcry at the rapid rates rises the Labour Environment Secretary Antony Crosland set up the Layfield Committee to investigate local government finance in England and Wales. The Layfield Report (Layfield Committee, 1976) remains one of the most comprehensive analyses of local government finance and the relationship between central and local government. The Layfield analysis is a useful examination of the long term problems affecting local government beyond the 'internal' problems of the rates system.

The Layfield Report looked beyond the short term causes of the 1974 rates crisis and identified the long term trends which underlay the broader problems of local government finance. The Committee noted that local government expenditure had grown enormously throughout the twentieth century, particularly in the period following the Second World War. One estimate by Peacock and Wiseman put the long term real growth in local expenditure between 1890 and 1955 at 600% (quoted in Midwinter and Monaghan, 1993). This long term rise in local government expenditure reflected the much expanded interventionist role taken by government within the economy.[7] In the modernising spirit of the post war period central government had taken a direct role in planning expenditure in areas such as housing, welfare and health. Whilst many of local government's trading services such as gas and electricity provision had been nationalised, local government became increasing responsible for the delivery of central government's planned services. By the 1960s and 1970s the Layfield Committee found evidence that local government expenditure was being used by central government as a tool of economic policy. Government used the grant system to pump money into the economy via local government

[7] The rising trend in local government expenditure is not entirely consistent, within the trend are periods when capital and revenue expenditure fall as a proportion of GDP. Convincing explanations for these variations have been elusive. For greater detail, see Foster, Perlman and Jackman, 1980.

spending in order to promote economic growth. Local government expenditure expanded rapidly, reaching a peak in local spending as proportion of GDP and total public spending in 1976. In 1960/1 local authority expenditure represented 5.2% of GDP, by 1974/5 the figure had reached 8.5%.

The Layfield Report noted that central government had recognised both the national character of many of these services as well as the need for a uniform standard of provision. This recognition had been reflected in the development of an increasingly sophisticated grant system to distribute ever greater amounts of central government funds to support local government services. The specific grants first used had been incorporated into a general grant following the 1957 White Paper (DoE, 1957). The Report also noted that central government had gradually expanded the range of taxes available to itself but had failed to replace or augment the rates. As a result rates, along with fees and charges for local services, had remained the only sources of local revenue available to local government and had become steadily less able to cover the growing expenditure of local government. Central government recognised that the rates burden could become too onerous and, after the Allen Report, that rates were regressive. As a result central government progressively increased the proportion of local government expenditure financed through grants, especially from the mid-1960s onwards, from 51.1% in 1964/5 to 65.3% in 1974/5.

The Layfield Report suggested that these trends had weakened the accountability of local government to its electorate. This weakness in accountability was attributed firstly to the degree to which central government was involving itself in both the detail and overall level of local expenditure. Although difficult to measure directly, the Committee felt that because an increasing proportion of expenditure was funded from grants, central government departments felt both the need and justification for their greater involvement. Secondly, weakened accountability was attributed to rising grant levels and erratic grant distribution. These trends meant that the relationship between changes in local tax bills and local spending decisions had become less distinct, local tax bills could change for reasons other than because of changes in local spending. The crucial problem the Layfield Committee saw in the breakdown in accountability was that democratic restraint on local spending decisions also broke down. Expenditure control through the democratic process at local level therefore could not be assured. Such a situation would ultimately force central government to play a far greater and more explicit role in determining local government expenditure :

> 'Effective control of expenditure cannot be ensured in a system where local accountability has been seriously weakened, unless central accountability provides that control. Centralisation of expenditure decisions is the inevitable end to which a system depending on high and increasing grants,

and associated with an inflexible and politically sensitive local tax, must lead.'

Layfield Report, 1976, para. 25.

In the past the relationship between local and central government had developed on an ad hoc basis with responsibility for expenditure imprecisely defined. In the Committee's view, the essence of local democracy was the relationship between the local electorate and its local council. To preserve local democracy the lines of accountability for local expenditure had to be made far more explicit by deciding to make either central or local government responsible for local spending. In the light of such a decision an appropriate financial system could then be devised. The Report made clear its majority support for the 'localist' alternative. Under a 'localist' system responsibility would fall entirely upon local authorities with central government playing a much reduced role in determining the size and nature of local expenditure. Local authorities would raise at least 60% of their income locally through a progressive local income tax, although rates would be retained on a revalued capital value basis. Grants would be limited to no more than 40% of local expenditure. Central government would be allowed influence - but not control - over the total of spending - control was to be exerted through far clearer lines of local, electoral accountability :

'...there is a strongly held view amongst us that the only way to sustain a viable local democracy is to enlarge the share of local taxation in total local revenue and thereby make Councillors more directly accountable to local electorates for their expenditure and taxation decisions.'

Layfield Committee, 1976.

This discussion has demonstrated that whilst a number of valid criticisms were made of the rates system, particularly regarding regressiveness, the system was also criticised unfairly. Rather than carrying out a major reform to provide a more substantial tax resource better suited to the demands being put upon local government, successive governments had consistently preferred to use an increasingly sophisticated and politicised grant system to compensate for the rates system's inadequacies, despite external advice against this course of action. Restraining local expenditure subsequently posed problems for central government since a reduction in grants to force local expenditure cuts could produce substantial and increasingly regressive rates bills. The sea-change in the economic fortunes of Britain from the mid-1970s onwards threw these problems of local finance into sharp relief as central government sought ever greater control over local government expenditure.

2.3.2 Layfield to the Community Charge

The difficult issues raised by Layfield Report were left largely unconfronted by the Labour government's 1977 Green Paper (DoE, 1977) which rejected the Layfield choices of 'localist' or 'centralist' local government finance. The government never commanded a

sufficient parliamentary majority for its recommendations for a modernised rates system using a capital value basis and for the introduction of a unitary grant to be implemented. Although grants rose as a proportion of local government revenue over the lifetime of the Callaghan government, cuts were achieved in the proportion of revenue provided in grants and in overall planned expenditure between 1975/6 and 1978/9 (Table 2.1). These cuts were achieved without inducing real increases in rates principally because of changes in political control in a substantial number of local authorities (Gibson, 1985). The 1979 Conservative administration was committed to cutting public expenditure and the level of direct personal tax. Other electoral promises made it clear that spending on defense, health, the police and social security was to be sustained; expenditure reductions therefore were to fall on housing, social services and education. Yet central government had no direct control on spending in these areas since these services were largely run by local government. Although growth in real current spending had almost halted from 1976 to 1979, Michael Heseltine asked for an immediate 1% cut for the current year 1979/80. For the following year further cuts amounting to 5.5% below the previously planned 1979 expenditure were to be made. In the same year central government cut its expenditure by less than 1% (quoted in Gibson, 1990). Over the following years the relationship between central and local government was characterised by significant destabilisation; at least forty pieces of legislation affecting local government were passed between 1979 and 1983.[8]

The principal means of imposing expenditure restraint was by reducing the overall level of grant, a policy operated as by Labour as well as by Conservative administrations (Rhodes, 1984) but made more effective by the introduction of the Block Grant system in 1981. In response to falling grant levels real current expenditure by local government fell marginally during 1980/1 and 1981/2 but began to rise subsequently. Nevertheless the overall percentage of government expenditure funded through grants remained below 1974 levels until the mid-1980s and never again reached the levels set during the latter years of the Callaghan government (Table 2.1). Central government published regular reviews of local taxation - the 1981 Green Paper 'Alternatives to Domestic Rates' (DoE, 1981); the Environment Select Committee's investigation of rates in 1982; the 1983 White Paper 'Rates' (DoE, 1983) - all of which supported continuing with rates. Increasingly draconican capping powers were taken as local spending failed to fall despite cuts in central grant. An extremely critical Audit Commission (Audit Commission, 1984) report implied that the Block Grant system was close to collapse under the strain of implementing the government's legislation. In response, an internal review of the local government finance system was set up though with little expectation of any fresh conclusions. It was this review which initiated serious consideration of a poll tax, shifting it from the politically unthinkable to the only possible solution. The review team's deliberations need not

[8] For more detailed accounts of this period, see Bramley, 1985; Jones and Stewart, 1982; Travers, 1986.

Table 2.1 : Local Government Revenue Income Sources (England) : 1970/1 to 1992/3 (%)

	Local Tax	Grants	Misc.
1970/1	26.5	36.0	37.5
1971/2	26.5	35.9	36.1
1972/3	26.8	37.7	35.5
1973/4	24.9	39.1	36.0
1974/5	23.9	44.7	31.5
1975/6	23.9	46.8	29.3
1976/7	23.0	46.7	30.3
1977/8	23.8	44.9	31.4
1978/9	23.2	44.0	32.8
1979/80	26.5	48.5	25.0
1980/1	24.6	42.8	32.6
1981/2	26.7	38.4	34.8
1982/3	27.9	35.9	36.2
1983/4	26.7	39.7	33.6
1984/5	27.0	39.2	33.8
1985/6	27.1	38.8	34.1
1986/7	28.8	37.2	34.0
1987/8	29.1	36.5	34.4
1988/9	30.6	34.9	34.5
1989/90	30.7	33.4	35.9
1990/1	32.2	34.8	33.0
1991/2	29.3	38.4	32.2

Source : United Kingdom National Accounts (1989)

concern us here but the resulting Green Paper's (DoE, 1986) radical proposals require some attention.[9]

2.4 Local taxation in Practice - Community Charge

The details of the Community Charge legislation are not the concern of this thesis which focuses on the Council Tax. Instead this section concentrates on the Community Charge in terms of public finance analysis before considering its distributional impact in comparison with the rates system. This comparison provides a context against which to consider the Council Tax.

2.4.1 **'Paying for Local Government' :** The government's analysis of the failings of the local government finance system was firmly centred upon weaknesses in local accountability. It argued that weakness in local accountability allowed local government to continue to spend above what it needed to spend. In some respects the accountability argument was about the distribution of the tax burden, not distribution between geographical areas or between income groups but between voters and taxpayers. In the government's view the accountability of local government to its electorate was weak in three areas :

> '- the extent to which local authorities' marginal spending is funded by non-domestic ratepayers;
>
> - the mismatch between those who are entitled to vote in local elections, those who benefit from local authority services, and those who pay domestic rates;
>
> -the operation of the grant system,'
>
> Department of Environment, 1986, pp. 5-7.

The Green Paper argued that the contribution made by non-voting, non-domestic ratepayers weakened accountability by reducing the contribution to marginal expenditure to be met from domestic rates. Of expenditure funded through rates in 1984/5, 54% was met from non-domestic rates and only 36% from domestic rates. As a result, on average less than half the local tax bill for any increase in local expenditure was met by from domestic sector sources. In local authorities with substantial non-domestic revenue, the contribution from domestic rates could fall to less than 25%. The Green Paper drew the conclusion that :

> 'Authorities therefore find themselves in a position to increase spending on services for the voting domestic ratepayer largely at the expense of the non-voting, non-domestic ratepayer.'

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[9] For an account of the political development of the Community Charge, see Crick and Van Klaveren, 1991.

Department of Environment, 1986, para. 1.35.

The Green Paper recognised that accountability had been weakened by the mismatch between those who voted for local government services and tax levels and those who actually paid rates bills. As recognised by the Allen and Layfield Reports, rates did not relate to the number of adults in a household. There was therefore a large number of adults - spouses and working children of householders - who made no contribution in local tax yet who were eligible to vote. This mismatch was deepened by 3 to 4 million low income households receiving rate rebates. Of 35 million voters, only 18 million received bills, of whom some 6 million received partial or full rebates, for some local authorities this meant only 10% to 15% of their revenue came from local domestic ratepayers.

The final area of weakness in accountability was the grant system. The grant system undermined local accountability in two ways. First, the level of grant provided to local authorities varied from year to year, often for reasons beyond local authorities' control. As a result, changes in local tax levels could be entirely unrelated to changes in local expenditure decisions, thus undermining local accountability. This problem resulted from government inaction rather than any innate iniquity of the rates system. The second area of concern was with the operation of the resource equalisation element of the Block Grant. This element of the grant was designed to allow every authority to levy the same tax rate or rate poundage, irrespective of the authority's tax resources. The Green Paper used Carlisle and Luton as examples of high and low rateable value areas. Levying the same rate poundage, resource equalisation meant that average bills for spending at GRE (Grant Related Expenditure) in Carlisle would be £229 but £404 in Luton. As a result, differences in tax levels were not necessarily related to differences in local authority spending. In theoretical terms this is a curious criticism since it regards one of the principal purposes of the grant system as problematic. The objective of resource equalisation was to prevent extreme horizontal inequality, without equalising for resources household bills in areas with low average rateable resources or with relatively little revenue from non-domestic rates would have very much higher bills than in other areas for the same standard of service.

The Green Paper's diagnosis of the shortcomings of local finance follow on from the concerns expressed both in the Allen and Layfield Reports but the radical reforms proposed implicitly followed a Public Choice approach (Hepple, 1989). The analysis and solution of the weakness of accountability had already been proposed by Foster, Jackman and Perlman six years previously :

> 'an efficient local tax should fall on those who benefit from local government services. On these grounds, we would prefer a poll tax, a land tax or on the assumption of owner-occupation - some form of housing

> tax....[because] local electors will have no alternative to be efficient unless they are substantially responsible for financing the services. Therefore an efficient tax must fall on electors'
>
> Foster, Jackman and Perlman, 1980, p.235.

If accountability was improved by matching voters to taxpayers and by redistributing the marginal tax burden so that it fell upon local voters then, if the analysis was correct, local accountability would be restored and local expenditure would fall. This analysis pointed towards a permanent reform of local government finance which would prevent any likely future rise in local government spending.

2.4.2 **Reforms proposed by 'Paying for Local Government'** : The Green Paper proposed the nationalisation of non-domestic rates (previously suggested in Foster and Jackman, 1982), this removed the right of local authorities to set their own tax rates on non-domestic ratepayers. The tax rate for non-domestic ratepayers would be set nationally, pooled and then redistributed to local authorities on the basis of their population. By implication, the tax base of local authorities was more than halved whilst the non-domestic rates (National Non-Domestic Rates or NNDR) became an assigned revenue distributed as a per capita grant. This had the major implication that it removed any incentive for local authorities to encourage local businesses. Second, businesses still paid for services over which they had no control. Third, it threw the main emphasis of grant distribution onto population numbers rather than population needs. Fourth, the grant system was changed so that grant distribution was fixed at the beginning of each year and any expenditure above Standard Spending Assessment (the expenditure central government felt local authorities needed to make), had to be funded entirely from local sources of revenue. Since local authorities no longer controlled non-domestic rates and their 'exploitation' of the grant system had been halted, any increase in expenditure above Standard Spending Assessment would fall entirely on domestic taxpayers who were to be synonymous with voters.

The most controversial proposals were for local domestic taxation. Rates were to be abolished and replaced by a flat-rate, regressive, per capita charge, a poll tax called the Community Charge. The Green Paper claimed that the Community Charge's distribution would be not much more regressive than the rates. It claimed that those on the lowest incomes would be better off with Community Charge. To counter the claim that those on higher incomes would pay less under Community Charge than under rates the paper echoed the argument noted previously. The overall progressiveness of the fiscal system was the most important factor, not the degree of progressiveness of individual components of the entire fiscal system. Since the grant system would still make a substantial contribution to local expenditure using revenue from central, progressive taxes, the fiscal system as a whole would still impose a progressively higher burden on those with higher incomes.

2.4.3 **Poll taxes in theory** : The theoretical justification for a poll tax is firmly based on economic efficiency grounds which require a number of restrictive assumptions.[10] The most important assumption is that all local government services are beneficial rather than redistributive, in practice this means local public goods which benefit all taxpayers equally. This implicitly assumes public goods are almost pure - if they are not then charging is the most economically efficient means of paying for their provision. The second assumption is that the median voter's tax level is equal to the benefits the median voter derives from public services. The poll tax is the most efficient tax because it best reflects the benefit incidence of the public good or service and because it does not produce disincentives to work nor does it distort expenditure patterns - unlike, for example a tax on consumption. The biggest difficulty with a poll tax, as was rapidly discovered, is its unacceptability to popular conceptions of equity, despite its theoretical justification which discounts the tax's regressiveness as grounds for criticism. In similar circumstances in which local services are of a purely benefit type, a household tax (a fixed, lump-sum tax upon a household) would be more efficient than a poll tax if the costs of public goods' provision were more related to households than to individuals. Theoretically, if local services are redistributive then a flat-rate tax is less efficient but not entirely inappropriate. Redistribution is possible purely through expenditure rather than in addition to progressive forms of taxation.

2.4.4 **Criticisms of the Community Charge** : There are innumerable criticisms of the Community Charge legislation from a huge range of different approaches which cannot be considered here.[11] Instead, the 'internal', public finance theory-inspired criticisms of the Community Charge are considered here. The most fundamental criticism is that as a flat-rate, benefit tax the Community Charge was an abject failure. The government's view of local government services as essentially beneficial was overly simplistic. Although a few services such as sewerage and rubbish collection could be said to be beneficial it is less easy to see the majority of local services in this way. For example, it is very difficult to recognise police, fire protection and environmental health as beneficial services. The benefit from these 'protective' services is largely unrecognised, in other words these goods are far closer to theoretically pure public goods which preclude charging. Other services do not sit happily either as beneficial or redistributive, education is particularly difficult to distinguish as a redistributive or beneficial public good. Overall however, much of local government expenditure can be recognised as redistributive and simply cannot be regarded as beneficial.

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[10] For a full description of the theoretical rationale for a poll tax, see Foster, Jackman and Perlman, 1980, pp.220-222.

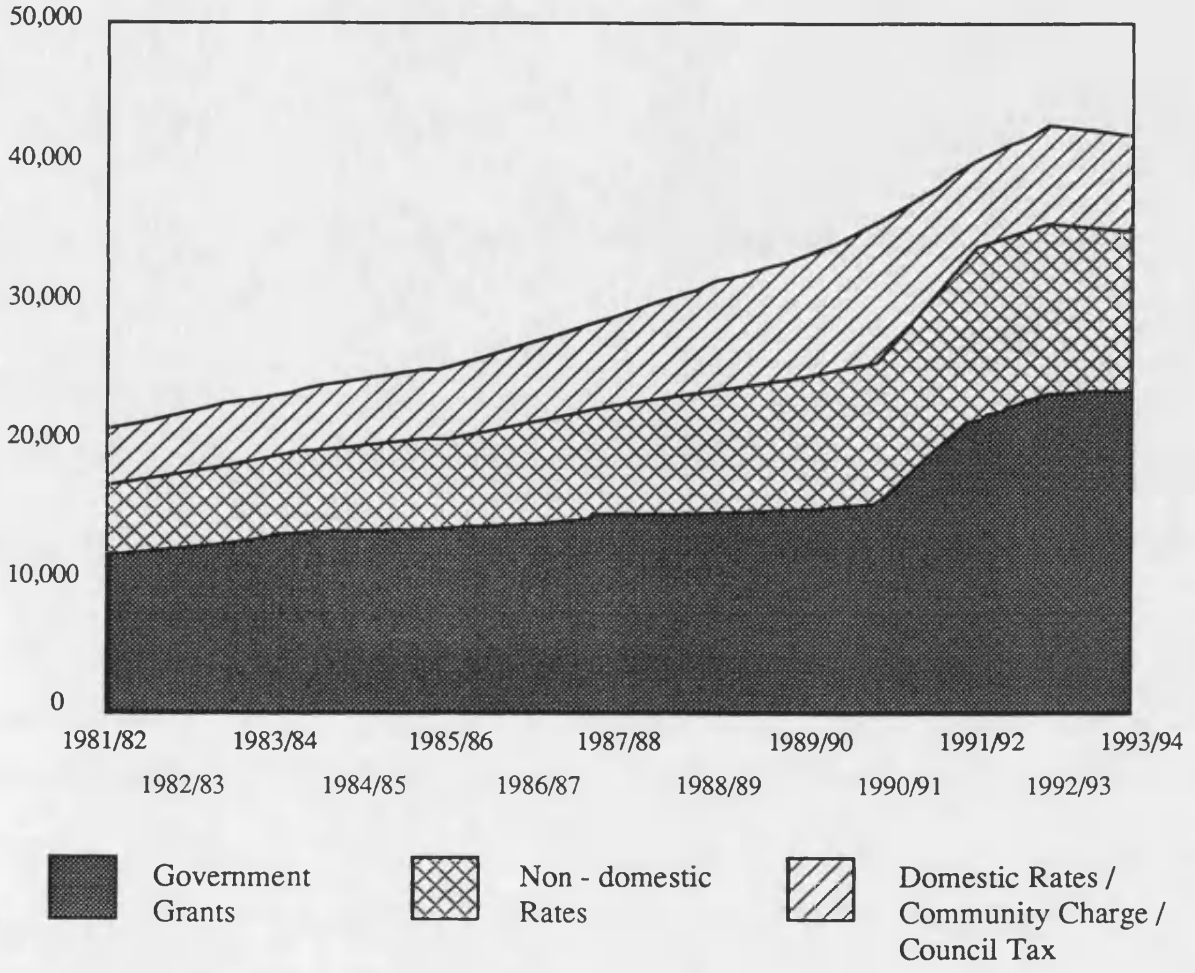
[11] For a full critique of the arguments underlying the Community Charge, see Midwinter and Mair, 1987; Gibson, 1990.

The evidence of service useage further undermines the case for a flat-rate benefit tax. The evidence (e.g. Bramely, LeGrand and Low, 1989; Midwinter and Monaghan, 1993) suggests that the benefit from local government services is not evenly distributed across the population. Bramely, LeGrand and Low (1989) found that the higher the socio-economic status of a household the greater the benefit gained from services as diverse as roads, libraries, education and social work. An average household in the top social category used services twice as much as a household in the lowest social group. In terms of household type and age category, the heaviest users of local government services are those with children because of educational spending and the elderly through social services expenditure.

The evidence of the distribution of the benefit of local services seems to lend some support Jackman's (Quoted in Gibson, 1990) suggestion that the most appropriate benefit tax would be a mildly regressive tax such as rates since the benefit from local services increased with income but at a less than proportionate rate. Having failed as a flat-rate tax, the Community Charge also failed as a benefit tax. The Community Charge as a benefit tax fell heaviest on entirely the wrong groups. i.e. those groups which used local government services the least - the working, the non-owner-occupying, the young, single person households without children. The argument for a flat-rate, benefit tax in public finance terms is therefore very weak indeed.

2.4.5 **Community Charge and Rates compared** : The Community Charge replaced the rates, a tax previously criticised for being regressive, with a tax which was even more regressive. In doing so, a radical shift was made in the conception of local government services and the tax raised to pay for them. The rates had developed a rationale (albeit ill-defined) which had used the rateable value of a household's property as a surrogate measure both of ability to pay as well as of the benefit the household received from local services. Although imperfect, there was a recognition that the rates' distribution possessed a rough form of equity in that wealthier occupants of large houses paid more in rates than poorer occupants of small properties. Secondly, as noted in the Allen Report, there was an implicit expectation that the higher rates faced by large properties also reflected the greater benefit they derived from local services. In comparison, the Community Charge was a flat-rate personal charge paid by all adults, even those on the lowest incomes were to pay 20% of their Community Charge. The tax was obviously regressive, it conspicuously lacked even the rough and ready relation to ability to pay that had underpinned the rates' longevity. The Community Charge's rationale implied a very different view of local government services. The Community Charge followed the argument put forward in the Allen Report and elsewhere that taxes should reflect the benefit derived from local services. The Community Charge was a tax on individuals because the number of adults in a

Figure 2.1 : Financing of Local Government Revenue Expenditure : 1981/82 - 1993/4. (£m).



Source : Local Government Financial Statistics England, No.4, 1990/91-1993/94.

Table 2.2 : Funding of Local Government Revenue Expenditure : 1981/82 1993/4 (%) (England).

	Grant	Non-domestic Rates	Rates
1981/2	55.9	24.9	20.1
1982/3	53.3	25.9	20.7
1983/4	54.1	26.0	18.8
1984/5	54.4	26.4	19.5
1985/6	53.8	27.8	21.0
1986/7	50.3	28.4	22.2
1987/8	49.3	27.9	22.6
1988/9	46.3	28.2	24.6
1989/90	44.2	28.8	25.5
			Community Charge
1990/1	41.8	29.1	28.4
1991/2	52.7	31.4	16.2
1992/3	54.2	28.7	16.8
			Council Tax
1993/4	55.9	27.1	16.5

Source : Local Government Financial Statistics England, No.4, 1990/91-1993/94.

households better reflected the benefit derived from local services than the rateable value of the household's property. This made the assumption that the benefit from local services was evenly distributed across all adults (an even more heroic assumption than rates' assumption that benefit was in proportion to rateable value). It is clear that the rates and Community Charge represent radically different conceptions of the appropriate distribution of local taxes, ironically the detailed study of Council Tax presented in the next chapter reveals that the new tax possesses elements of both its predecessor systems.

2.4.6 **From Community Charge to Council Tax** : The short life of the Community Charge from 1990 to 1993 was an unhappy period for both central and local government. Capping was used extensively as local authorities tried to use the confusion and increasing public antipathy towards the Community Charge as cover for increases in local tax levels. To relieve upward pressure on headline Community Charge figures the Community Charge Reduction Scheme was expanded and Revenue Support Grant government was forced upwards faster than before 1990. Ultimately, the Community Charge produced an outcry which was irresistible. As Margaret Thatcher was forced to resign, ostensibly over European policy, her potential successors queued up to promise to slay the Community Charge dragon. To provide John Major with political breathing space, in his 1991 budget speech Norman Lamont announced that VAT would be increased by 1.5% to fund a £140 reduction in average headline Community Charge for 1991/2 from £392 to £252. Coupled with the reduction scheme costs, this increased central support of local expenditure by around £6bn, reducing the proportion of revenue raised from local domestic taxation to just 15% (Figure 2.1 and Table 2.2).

2.5 Local Taxation in Practice - Council Tax

This section provides a brief outline of the Council Tax to provide firstly a basis for a comparison between the Council Tax, Community Charge and the rates; and secondly, to provide a general context for the more detailed analysis of the Council Tax in the following chapter.

2.5.1 **Council Tax as a domestic tax** : The Council Tax is a banded, domestic property tax, with liability for the tax being based on the capital value of the property. Single adult households and a number of other groups (though single adult households is by far the largest group) are eligible for a discount of 25% from their property's bill. Other than for single adult households, liability for Council Tax is constant, irrespective of the number of adults in a household. The government described the Council Tax in the 1991 Consultation Paper (DoE, 1991a) as combining a personal and a property element but being administratively simple - the new tax was to have 'a single bill for each household which reflects the value of the property and the number of adults living in it.....people in the least expensive properties receive the lowest bills, but those in higher value homes are

not required to pay unreasonable amounts'. Every domestic property in the country has been allocated to one of eight capital value bands by reference to its market value on 1 April 1991 (Table 2.3). The liability a household faces for Council Tax depends upon the band in which a property is placed, Band A attracting the lowest bills and the Band H the highest. Table 2.3 demonstrates the Council Tax capital value bands and their relationship to tax rates. This relationship is considered in greater detail in the next chapter. The banding system makes the valuation process easier - there will no exact figures which can be disputed except at the band margins; secondly, the government claims that 'the banding system will ensure that there is no need for regular or frequent revaluations' (DoE, 1991, p.iii); thirdly, the banding system limits the highest bills which can be levied by local authorities on the most valuable properties to double the bill for a Band D property. The tax rate for each valuation band is fixed and cannot be changed by local authorities; local authorities are only able to set the Band D rate from which all other bands' bills are calculated.

2.5.2 **Council Tax Transitional Relief Scheme** : For at least the first two years of the Council Tax's operation, the transition from Community Charge to the new tax will be eased by the Council Tax Transitional Relief scheme (CTTRS). The scheme prevents changes in household bills from being too extreme. Increases in households' local tax bills will be limited to a maximum amount for each valuation band. If the increase between Community Charge and Council Tax is above a threshold, households are given a reduction equivalent of the difference between the threshold and the actual bill. Those living in relatively less expensive properties, and lower banded properties have to meet smaller thresholds than those in larger, higher banded properties.[12]

2.5.3 **Council Tax and the grant system** : Council Tax is designed to raise the same level of revenue as the Community Charge in its last year, roughly 14% of local government's revenue. The remainder is provided through the distribution of the Revenue Support Grant and the revenue derived from the taxation of businesses, the National Non-Domestic Rates. The Revenue Support Grant in 1992/3 provided almost £17bn for local government expenditure, this revenue is derived from general, national taxation sources such as VAT and income tax. The grant is a general grant (unlike the other £4.5bn distributed as specific grants in 1993/4) and is not allocated to specific purposes. Of the £17bn total, £14bn is distributed as a flat-rate grant to local authorities to reduce tax levels, this is equivalent of £884 per Band D equivalent property. The remaining £3bn is used for needs and resources equalisation. The equalisation function of the grant system allows all local authorities to have a common level of taxation for a Band D property for spending at

[12] More detailed consideration of the Council Tax Transitional Relief Scheme is given in Chapter Eight.

Table 2.3 : Council Tax, Capital Value bands and tax rates

Band	Property Values	Council Tax as % of Band D Tax Rate
A	< £40,000	66.7
B	£40,000 to £52,000	77.8
C	£52,000 to £68,000	88.9
D	£68,000 to £88,000	100.0
E	£88,000 to £120,000	122.2
F	£120,000 to £160,000	144.4
G	£160,000 to £320,000	166.7
H	>£320,000	200.0

SSA, irrespective of their need to spend or their ability to raise revenue locally. This process compensates those local authorities with low taxable resources or high spending needs by providing them with larger central grants and correspondingly smaller grants to those authorities with high taxable resources or low spending needs. Equalisation means that if Enfield and Liverpool spend at Standard Spending Assessment (the level of expenditure central government thinks a local authority needs spend to provide a notionally 'standard' level of service) both local authorities can set identical Band D tax rates despite their disparate spending needs and taxable resources. The Standard Spending Assessment system calculates the resources and needs of each local authority and distributes the Revenue Support Grant (RSG) between the local authorities. This system has recently been subjected to a critical report by both the Audit Commission and the Rowntree Foundation. (Audit Commission, 1993; Hale and Travers, 1993). If a local authority decides to spend above the level set by central government as its Standard Spending Assessment, the additional revenue has to be raised entirely from local Council Tax receipts, with no additional grant aid from central government. In the transitional year of 1993/4 central government has prevented local authorities from setting budgets more than a few percent above their SSA through extensive use of capping powers. For most District authorities, their 'cap' has been at their SSA level.

2.5.4 **Council Tax and National Non-Domestic Rates** : National Non-Domestic Rates (NNDR) are notionally a local tax but are more akin to an assigned revenue. Up until the introduction of the Community Charge, local authorities were free to set their own tax rate for local businesses. The tax operated in the same way as domestic rates in that every business premises would have an imputed rental valuation upon it, each year the local authority set a rate poundage of a number of pence per pound of rateable value. Since 1989, central government has set a single rate poundage which is paid by all non-domestic ratepayers across England and Wales, government has committed itself to not increasing this rate faster than the rate of inflation. The £12bn (1993/4 figures) in revenue raised is pooled and redistributed to local government as an amount per capita, in effect the distribution is as a general grant in support of local government expenditure.

2.5.5 **Council Tax and structural reorganisation** : In the same announcement which heralded the Council Tax as the Community Charge's replacement, Michael Heseltine also announced the establishment of the Local Government Commission. This body is to consider the future of the existing two tier structure of local government established by the 1974 reorganisation and where necessary to make recommendations for structural change. The options for change range from making no change at all through to outright abolition of some structures and the creation of unitary local authorities. The new unitary authorities would take on the responsibilities of both the previously existing County and District tiers of government; a form of local government very similar to the old County Boroughs and

city corporations. The work of the Commission is ongoing, it has made recommendations for a number of areas though none have yet been implemented since the government has rejected the Commission's proposals for County Durham, Derbyshire as well as those for Gloucestershire. The Council Tax's grant system is designed to operate with the existing structures of local government as well as any which may appear in the future as a result of the Commission's work.[13] Despite this design, the consequences of structural change will extend throughout local government, not least to the Standard Spending Assessment system (Hale and Travers, 1993).

2.6 Conclusion : Council Tax and its Predecessors

This chapter has discussed the analytical concepts of public finance both in terms of central and local government. The chapter went on to use the analytical 'vocabulary' drawn from public finance theory to consider the taxes which have preceded the Council Tax. This theoretical analysis was then complimented by an examination of the historical processes which have shaped the economic and political backdrop to local government finance since the mid-1970s. This has provided a theoretical and policy context for the more detailed analysis of the Council Tax and its distribution which is the subject of the following chapter.

It is clear, even from the previous brief description of the Council Tax that the tax encompasses elements which have been drawn from both the rates and the Community Charge. The Council Tax has similarities with the rates in that it is chiefly a property tax, but capital valuation and the banding structure make it likely that the tax's distribution (even without the personal element) will be significantly different from that of rates. The next chapter gives detailed attention to the effects of the Council Tax's capital value basis, particularly in relation to the geographical distribution of the tax burden. The Council Tax also possesses an element of personal taxation, similar in some respects to the Community Charge. Just as the Council Tax's property element differs from rates, the impact of the Council Tax's personal element cannot be 'read off' from the Community Charge. Unlike the Community Charge the per capita element of the Council Tax is limited to affecting the tax liability of only the first two taxable adults in a household. The Council Tax is neither a flat-rate benefit tax similar to the Community Charge nor a simple property tax directly comparable to the rates but a complex combination of both. As the next chapter will show in much greater detail, the Council Tax's hybrid design implies a confused theoretical view of local government services and thus a confused rationale for the tax itself. A significant implication which can be drawn from this confusion surrounding the nature of the tax is that its regressive distribution will be far more complex than might first appear.

[13] For the operational details of the new grant system, see CIPFA, 1992.

Chapter Three

Council Tax - A Research Agenda

3.1 Introduction

This chapter focuses upon the research issues raised by the Council Tax and its distribution which are the subject of the thesis's empirical analyses. The first part of the chapter gives a detailed analysis of the Council Tax, drawing on the concepts of public finance theory discussed in the previous chapter as well as on analyses of the tax made by other authors. The chapter considers the influences affecting the distribution of the Council Tax, in particular the design of the Council Tax itself, the use of capital value as a tax base and the interaction between the Council Tax and the Revenue Support Grant (RSG). In the last part of the chapter, the specific distributional issues are explored in more detail. This provides the background to the main empirical analyses of the Council Tax's distribution contained in later chapters.

3.2 Council Tax : Design Issues

The Council Tax has been widely perceived as a new property tax, a modernised form of the rates. This perception of Council Tax, in concert with a generous transitional relief scheme, has allowed the Council Tax to win quick acceptance as the Community Charge's replacement (Travers and Keen, 1994). However, the perception of the Council Tax as a property tax implies an expectation that the Council Tax's distribution is likely to be broadly similar to that of the rates. In other words, those living in larger, more valuable properties are expected to pay more than those in smaller, less valuable properties. The following section shows that the Council Tax's design is significantly more complex than that of a pure property tax and that this complexity is likely to lead to equally complex distributional outcomes.

3.2.1 **Council Tax - Benefit or Ability to Pay Tax ? :** Until 'Paying for Local Government' (DoE, 1986), the Green Paper which introduced the Community Charge there was a general political consensus that local taxes should impose a higher burden upon higher income groups and that they should not be regressive at lower income levels. Rates had been consistently criticised for being insufficiently progressive and placing too great a tax burden on lower income households. But 'Paying for Local Government' made it very clear that underpinning the design of the Community Charge was a distinctly different philosophy of local government services and taxation, which rejected the previous consensus on taxation. In the aftermath of the Community Charge's failure it might be expected that the Consultation Paper proposing the government's chosen replacement for

the Community Charge would indicate the philosophy on which the new tax was to be based. However, the candour found in 'Paying for Local Government' was not reflected in the Council Tax's Consultation Paper 'A New Tax for Local Government' (DoE, 1991a) which provided no similarly explicit rationale for the Council Tax's design. Nevertheless, public finance theory concepts can be used to interpret the Council Tax's design and to consider to what extent the tax can be regarded as a benefit tax or as an ability to pay tax.

'A New Tax for Local Government' (DoE, 1991a) begins its account of the historical background to the Council Tax by rehearsing the critique of the rates system in terms of the accountability arguments put forward in 'Paying for Local Government'. The paper's reason for the introduction of a new local tax - the Community Charge's failure - is put simply :

> 'However, the public have not been persuaded that the [Community Charge] is fair.'
>
> DoE, 1991a, p. 2.

In other words, the Community Charge's failure did not represent a failure of reasoning but rather one of presentation. In the absence of a rejection of the rationale for the Community Charge and the repetition of the critique of rates, it can be suggested that the Council Tax is based, at least to some extent, on the view of local government which spawned its predecessor. The Consultation Paper puts forward five principles which guided the design of the new tax. The first of these principles was accountability (a strong link between local spending decisions and changes in local bills) followed by fairness (the tax should be 'perceived as fair'); ease of collection; an equitable distribution (most adults should make some local tax contribution); and finally, restraint (bills should not be unreasonably high). These principles are virtually identical to those underlying the Community Charge, particularly in the emphasis on the importance of accountability. Furthermore, the definition of an equitable distribution is couched in terms of the needs of accountability rather than in terms the distribution being progressive or regressive. It is particularly noticeable that the 'equity' principle is very loosely defined as being a distributional outcome that is 'perceived as fair' rather than a more objective measure of distributional equity, this point will be taken up later in this section. From these principles came the financial proposals outlined below :

> 'The new 'council tax' will comprise a property and a personal element. But it will take the form of a single bill for each household, based on the value of the property and the number of adults who live in it.'
>
> Department of Environment, 1991a, Para 1.10.

The personal element was to be based on a standard, two adult household :

'Where there are two or more adults living in the property, the basic bill will normally have to be paid in full. Single adult households will receive a personal discount, expressed as a percentage off the basic bill. The Government propose a 25% discount.'

Department of Environment, 1991a, Summary.

In terms of its predecessors, the Council Tax was seen thus :

'This approach combines fairness with great simplicity of administration. It overcomes those aspects of both the rates and the community charge which were most criticised. It maintains a clear link between what councils spend and the bills which local residents must pay. It is based upon a balance between central and local taxation which is sustainable in the long term.'

Department of Environment, 1991a, Preface.

The statements on the previous page makes ~~above make~~ it clear that the Council Tax is a combined personal and property tax in even proportions. The even proportions can be implied from the 25% reduction for single adult households - if half the tax is a personal tax based upon a standard household of two adults, then a single adult household (arithmetically) receives a 25% personal reduction whilst still paying the full property element. Logically, a 25% supplement to household bills should be imposed for each additional taxable adult. The chastening experience of establishing and maintaining the Community Charge register cautioned the government against this option.

However, the division of the tax into personal and property elements produces ambiguity in public finance terms, an ambiguity which is compounded by the absence of any reference which suggests the degree to which the Council Tax is an ability to pay or benefit tax. On one hand, the rising tax rates imposed by the capital value banding structure could be designed to reflect increasing ability to pay, though the Consultation Paper only mentions income in relation to the issue of rebates for the lowest income groups. On the other hand, if the tax has been designed to be a benefit tax, the property / personal split implies that the benefit from local services accrues half to property and half to the property's occupants though there is no suggestion that this view guided the tax's design. Were this to be the case, the rising tax rates could then regarded as a reflection of the increasing benefits derived from local services which accrue to both properties and their occupants as capital value rises. However, if either of these propositions were true, tax rates should rise in proportion with capital value. In fact, the banding structure prevents this from happening by producing a rate of change in tax bills which is not proportional to the rate of change in capital value. The percentage rise in bills produced by the intervals between the property value bands is actually half the percentage rise in property value. This characteristic will be returned to in the next section.

Bearing in mind its explicit division between personal and property tax elements, as well as the apparent retention of the Community Charge's rationale, it is possible to view the Council Tax as a banded benefit tax using capital value as reflection of the increasing benefit derived from local services. The Council Tax then retains one of the essential elements of the Community Charge, payment for local services through a benefit tax in the form of a charge. The Community Charge justified its flat-rate tax through the assumption that the benefit of local services was evenly distributed across all individuals. In terms of the Community Charge's rationale, the Council Tax's banded structure appears to undermine the benefit principle but this could be seen as a necessary compromise with the 'fairness' principle. The Consultation Paper defined its principle of fairness as a tax which is 'perceived as fair by the public' (DoE, 1991a, para. 1.7). This implies that the personal element should be as close to a benefit tax as public perception of equity allows. The Consultation Paper's suggestion that the Community Charge failed because the public was not persuaded of its fairness rather than because it was simply a bad tax supports this suggestion. In the Consultation Paper's view, the Council Tax solves what essentially was a problem of presentation rather than substance by having a banded structure which provides the new tax with the appearance of equity which the Community Charge had lacked. Though the banding structure gives the appearance of equity, there is no implication at all that the tax is designed in any way to reflect ability to pay. There is no implication which suggests that capital value and income are regarded as closely related. The logic of the Community Charge, unrefuted by the Consultation Paper, is quite clear in rejecting ability to pay taxation :

> 'The ideal local tax should fit in with local authorities' role as a service provider and promote the efficient provision of services to the levels desired by most members of the community. That argues in favour of a form of taxation that has at least some of the characteristics of a charge. It argues against a redistributive tax.'
>
> Department of Environment, 1986, Para. 3.31.

As the previous chapter showed, the Community Charge not only failed in practical terms, it also failed as a benefit tax because of its reflection of the relationship between the benefit of local services and the tax-price paid for it. The fundamental assumption of the Community Charge, that the benefit derived from local services was evenly distributed across income groups, simply did not match reality. Though local authority services theoretically may be available to all, usage varies systematically with indices such as income, age or household type. For example, wealthier households are more likely to have children who participate in higher and further education, make greater use of roads (their rate of car-ownership is higher) and create more waste through higher consumption. As Jackman (1988) suggested :

> 'While on the other hand, the majority of the clients of welfare and social services are poor it seems clear that on balance the use made of local authority services rises with income.'
>
> Jackman, 1988, p.15.

This theoretical expectation is supported by empirical evidence of service usage which confirms that wealthier households tend to gain more from local services than lower income groups (Bramely, LeGrand and Low, 1989). In terms of benefit taxation, this implies that a progressive tax would reflect more accurately the benefit distribution of local authority services. If we accept a general tendency for wealthier households and households with children to occupy properties of higher capital value then in this respect the Council Tax improves upon the benefit / tax-price relationship of the Community Charge. As Jackman recognised in relation to the Community Charge :

> 'All these considerations point to the opposite conclusion from that of the Green Paper ['Paying for Local Government'] : the benefit derived from local authority services by a household may well be more closely related to the value of the property it occupies than to the number of adults in the household. The benefit principle does not, therefore, appear to provide any justification for switching from rates to a poll tax.'
>
> Jackman, 1988, p.16.

Implicitly this suggests first, that a property tax and the benefit principle are not incompatible; and second, that the Council Tax's use of capital value as the basis for its banding may be a 'better' benefit tax than its more explicitly benefit principle-based predecessor.

The Community Charge also failed as a benefit tax in a second respect. The Community Charge fell most heavily on the household groups which used local services least and fell relatively lightly on those groups which used services most. In shifting from the rates, single person households and households with multiple adults felt the burden of Community Charge most heavily. By contrast, households with children and the elderly, the groups making heavy demands upon local authority services, paid relatively little for them, particularly in comparison with previous rates bills. The Council Tax chiefly taxes domestic property and so tends to reverse these trends. The perennial criticism of rates was that its burden fell too heavily upon single person household, exemplified by the legendary 'little old lady' living next door to the house with three adult wage-earners. This problem has always been a political rather than a theoretical difficulty with property taxation. A single adult household occupying a relatively large property makes little sense in terms of efficiency, thus the accompanying higher property tax is simply the corresponding cost paid for the inefficiency. Nevertheless, the Consultation Paper claimed that the design of the Council Tax solved this problem through the 25% reduction for single person households. The empirical work of later chapters examines the extent to which the 25% reduction compensates such households for the shift back to a form of property

taxation from the per capita Community Charge.

The preceding analysis has attributed a logic to the design of the Council Tax which remains unspecified in the Consultation Paper. There is a deceptive clarity when the Consultation Paper notes that Council Tax bills should :

> '...reflect the value of the property and the number of adults living in it....so that people in the least expensive properties receive the smallest bills, but those in higher value homes are not required to pay unreasonable amounts.'
>
> Department of Environment, 1991a, Preface.

The clarity is deceptive in that the Consultation Paper made explicit the desirable characteristics of the new tax, but in sharp contrast to 'Paying for Local Government', gave no reasons as to why these characteristics should be so desirable.

The Council Tax displays a set of characteristics which could be interpreted in a number of ways. Rather than the logic imposed here, the Council Tax's mixed personal / property design could simply reflect a pragmatic response to the problems both of the Community Charge and the rates. The Council Tax removes the criticised characteristics of both systems (single person households and the appearance of unfairness) and amalgamates their positive elements - the popularly accepted principles of property taxation but also improved accountability brought about by taking numbers of adults (partially) into consideration. Nevertheless, whether by accident or by design, this analysis has suggested that the design of the Council Tax aims more towards a benefit tax-type relationship between tax bills and the benefit accruing from local authority services than the relationship which would be created by an ability to pay tax.

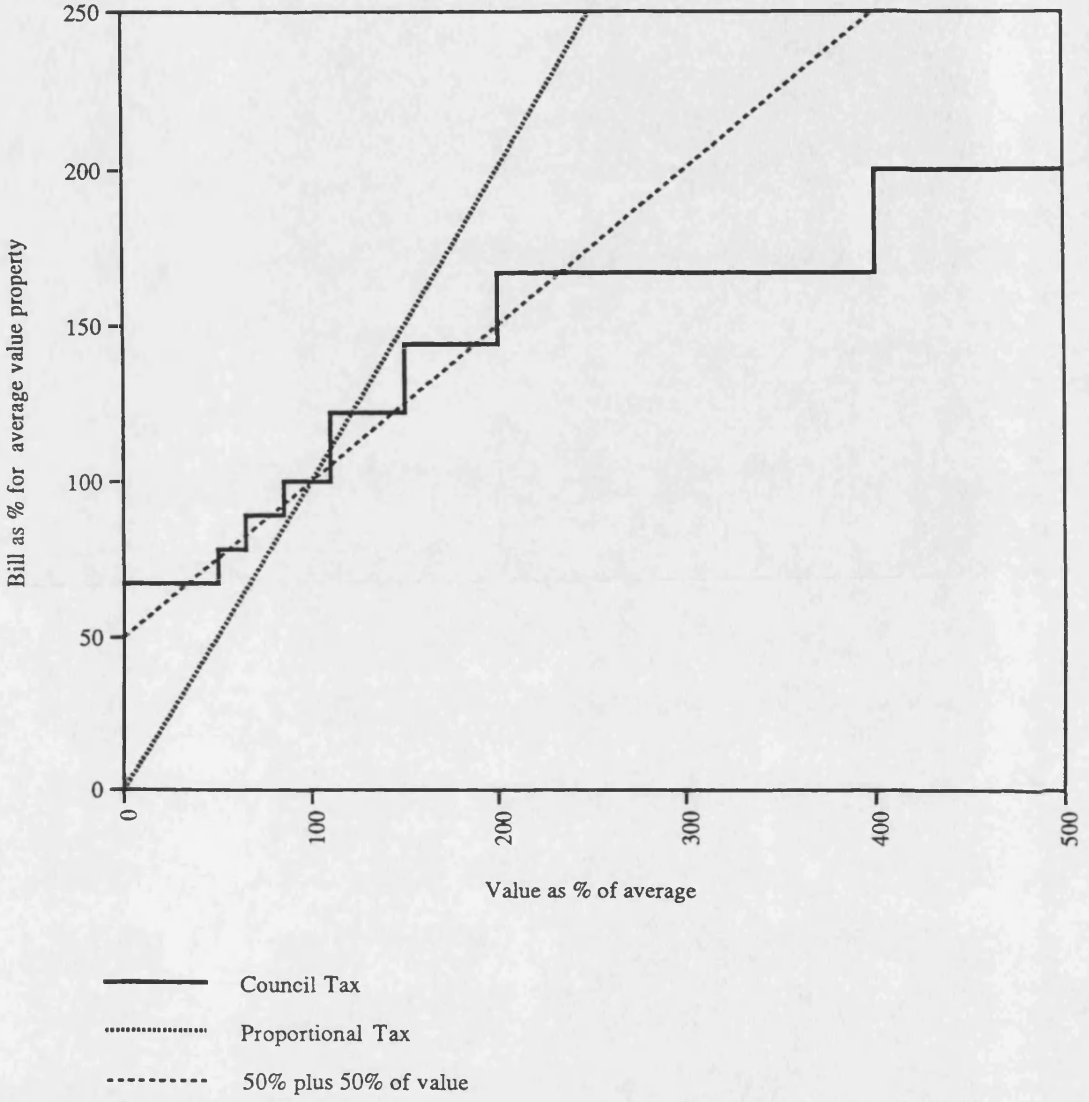
3.2.2 **Council Tax as a property tax** : As is clear from the discussion of rates in the previous chapter, the position of property taxes in terms of public finance analysis is unclear. Property taxes in general and rates in particular have been construed variously as a benefit tax, a surrogate for income tax, a land tax or a tax on buildings (Foster, Jackman and Perlman, 1980). Leaving aside the analysis made in the previous section, the Consultation Paper is equally unspecific as to the rationale underlying the Council Tax's property element. There is no indication of whether the use of capital value as a tax base is meant to be a surrogate for income which would imply Council Tax is an ability to pay tax. Alternatively capital value could be construed as an index of the benefit the property derives from local services in which case the property tax element could be viewed as benefit tax. The final and most likely alternative is that the Council Tax, as eventually rates came to be seen, is (in terms of its property element) a general tax upon capital in built form. In addition to these ambiguities, the Council Tax has a number of characteristics which distance it from a pure property tax. These characteristics, especially the banding

structure, have significant implications for the tax's distributional impact.

A comparison between the rates and the Council Tax offers some useful insights. Under the rates system the bills faced by households were in direct proportion to the rateable value which had been placed upon their property (the derivation of those values is not at issue here). The principle, in this respect at least, is clear - bills were directly and precisely related to the value of a property. Though central government ultimately used rate capping to set limits on the tax rates local authorities could levy, no limits were set upon the valuation which could be assigned to a property. The same cannot be said of the Council Tax. The 1992 Council Tax valuation survey placed every property in England, Scotland and Wales into one of eight property value bands ranging from Band A for properties worth £40,000 or less, through to Band H for properties worth more than £320,000 (in England, the bands varied for Scotland and Wales). The boundaries of the bands were based upon proportions of the national average capital value. The stated purpose of the banding structure for Council Tax was to simplify the valuation procedure, minimise appeals against valuations and to obviate the need for regular revaluation surveys, but the banding structure has implications beyond administrative convenience.

As Hills and Sutherland (1991) noted the relationship between liability for Council Tax and the capital value banding structure is very significant - the intervals between the bands are far from arbitrary. The previous section noted how the liability for Council Tax associated with each band is not in proportion to the liability for a national average capital value property, the value used in defining the value bands (Figure 3.1). A comparison between the dotted line representing a pure property tax (equivalent to the relationship between rateable value and rates bills) and the stepped, solid line representing the banded tax rates under Council Tax reveals that even without the personal element, the Council Tax never resembles a pure property tax. As Figure 3.1 shows, liability for Council Tax appears to be based on 50% of the average value property's bill plus half the property value as a percentage of the national average. In other words the percentage rise in bills produced by the intervals between the property value bands is actually <u>half</u> the percentage rise in property value, shown by the dashed line. A Band A property with a capital value of less than 50% of the national average attracts a liability for 67% of the average value property's Council Tax bill. At the other extreme, liability for Council Tax is similarly poorly related to capital value. In the original consultation paper design of the Council Tax, the-then top value band, Band G (properties of more than double the national average capital value) properties faced Council Tax bills only two-thirds higher than those for average value properties. In its passage through Parliament the Council Tax gained an additional value band, Band H, for properties valued at £320,000 and over. Band H properties face bills double the Band D Council Tax bill. Figure 3.1 shows that Band H is an obvious later addition by not fitting with the progression of liability established by the

Figure 3.1 : Capital value, Council Tax Banding and tax liability



Source : Adapted from Hills and Sutherland (1991)

other bands. To match the progression Band H properties' Council Tax liability should be 250% of the average value property's bill instead of 200%.

The second major implication of the banding structure is that it ensures that the range of bills a local authority can levy is compressed to fall within two-thirds and double the bill of a Band D property. Even for the least valuable properties, there is a 'threshold' liability of 67% of the average property's bill. If a property is worth much less than Band A's £40,000 upper boundary, its occupants will still be taxed on a property worth the full £40,000. This particular characteristic will be considered in more detail later. At the other extreme the banding system limits the liability for Council Tax faced by those living in the most expensive properties to double that of the national average property. This implies that, other than variations caused by the 25% single adult household discount, the Council Tax is a flat-rate tax for properties worth less than £40,000 and worth more than £320,000. By contrast the liability imposed by the rates was unlimited since the rateable value of a property could not restricted to certain values.

In distributional terms banding has significant implications. On first sight, banding seems likely to make the Council Tax progressive since bills rise with capital value, if capital value is accepted as a broad indicator of income. However, the preceding analysis of the effects of the banding structure has shown that the degree of progressiveness the tax can produce is designed to be limited. Evidence from the Institute of Fiscal Studies has confirmed that Council Tax, even in its first year of operation with its Transitional Relief Scheme, is almost as regressive as Community Charge and is only made less regressive by a more generous benefit scheme (Giles and Ridge, 1993). Giles and Ridge attribute the regressiveness largely to the banding structure. As noted above the difference in bills between Band A and Band H is limited to just three times a Band A bill, despite the difference in capital value being at least eight times. In other words, the tax bill per pound of capital value falls as capital value rises. If the ratio between a household's income and its property's capital value exceeds three to one, then the Council Tax will be regressive.

Regressiveness is also caused in areas in which a large proportion of properties fall into the same band. This has the effect of making the Council Tax more akin to a flat-rate, local household tax than a banded property tax. The issue of Council Tax as a household tax is considered in greater detail in Chapter Seven. Finally, if living standards and Council Tax bands are not closely correlated, regressiveness can be caused by households of relatively low incomes occupying properties of relatively high capital value. This is likely to be particularly true in areas with very high average capital values since, relative to living standards, the Council Tax produces a high tax liability 'threshold' (an issue also dealt with in Chapter Seven) because of the absence of low value properties.

3.2.3 **Council Tax as a head tax** : As Hills and Sutherland (1991) noted, Council Tax also displays characteristics of a per capita tax because the tax's liability is determined in part by the number of adults occupying a property. Since a single adult occupying the same property as two adults pays 25% less in Council Tax (even though subsequent additional adults make no difference to the household bill), for the majority of households the Council Tax is levied partially as a poll tax. Although this appears to be a minor issue it does suggest that analysis of the distribution of the Council Tax's burden needs to be made in terms of different types of household where the interaction of these influences - the geography of capital value and household composition - can be considered. This will be particularly true in considering the distributional impact of shifting from the Community Charge to the Council Tax.

3.2.4 **Council Tax as an income tax** : For some income groups the Council Tax is quite unlike a local tax but is much more like national income tax. The Community Charge's logic of accountability insisted that all taxable adults pay at least 20% of their Community Charge, irrespective of their income. Though the Consultation Paper implicitly supported the Community Charge's accountability logic and cited it as one of the Council Tax's basic design principles, the minimum contribution element was not retained in the Council Tax. Instead, as shown by Giles and Ridge (1993), the Council Tax benefit is far more generous than the Community Charge's scheme and fully protects those on the lowest incomes. For those qualifying for Income Support there is a 100% rebate and a tapered rebate for those on incomes just above Income Support levels. The Council Tax contributions made by those who are affected by the taper are not influenced by the level of taxation set by the local authority in which they live. As a result low income households' contributions to Council Tax are set by reference to national, rather than local, rates. In other words, at low levels of income the Council Tax becomes a part of national income tax. Using the initial details of the Council Tax, Hills and Sutherland (1991) suggested that as many as 13% of all households could experience Council Tax more as part of national income tax than as a local tax.

3.2.5 **Design issues - Summary**: The analysis of the Council Tax's design has shown that it is a complex hybrid tax comprising characteristics of a number of different taxes with no clear statement of its underlying tax philosophy. In the light of this design, its popular acceptance as a property tax is misplaced, as Hills and Sutherland (1991) argued:

> 'It would be a mistake to see [the Council Tax] as wholly, or even mostly, a property tax'
>
> Hills and Sutherland, 1991, p.11

The previous sections have shown that the miscellany of characteristics which make up the Council Tax makes its definition in terms of the benefit and ability to pay principles difficult. The weight of evidence suggests that the benefit principle has had the greater

influence upon the tax's design. Noticeably, the Council Tax's Consultation Paper lacks any distinct rationale for local services and taxation, this stands in stark contrast to 'Paying for Local Government'. The absence of a rejection of the Community Charge's rationale suggests that the thinking which underlay it has contributed significantly to the Council Tax's design. Nevertheless it is clear that the tax is confused in terms of its theoretical antecedents, just as rates were when Foster, Jackman and Perlman commented :

> 'If the benefit principle is to be reintroduced into local government finance it cannot be done through ad hoc adjustments of the rating system nor through the fiction of the Cannan equation. We cannot pretend that a property tax reflects both the benefit and ability-to-pay principles.'
>
> Foster, Jackman and Perlman, 1980, p. 157.

But as the previous sections have shown, the Council Tax is some way from being a pure property tax. Instead, Council Tax is a mixed personal and property tax, a design which in some respects resembles a banded benefit tax using capital value as a basis for the bands. Whether by accident or by design, the Council Tax may well be a better benefit tax than its predecessor since the evidence of benefit distribution of local services suggests that a mildly regressive tax is an appropriate form of taxation.

It is useful to compare the reality of Council Tax with the principles which were used to guide its design. The first principle cited by the Consultation Paper was accountability. Accountability will be discussed with in greater depth in the next section, but anticipating that discussion's conclusions, it is highly unlikely that the Council Tax will engender a clear relationship between changes in local spending and changes in local tax levels will exist. The Consultation Paper defined its principle of 'fairness' in terms of public perception, thus the Council Tax has fulfilled this principle since little, if any, public disquiet about the tax's distributional consequences has been expressed. The empirical work in later chapters deals with rather less subjective measures of the tax's progressive or regressive nature. The experience of the tax's first year suggests that levels of collection may eventually return to those experienced with the rates system, in which case the principle of ease of collection has been met. The fourth principle was that of an equitable distribution of the local tax burden. The Consultation Paper under this principle simply notes that :

> 'The principle that most adults should make some contribution has been widely accepted...'
>
> Department of Environment, 1991a, p.2.

Bearing mind that the Council Tax's predecessor was a flat-rate charge, it is surprising that the Consultation Paper gives no explicit government view of what an equitable distribution comprises. The fifth and final principle which guided the review was that of restraint, by which it was meant that local authorities should not be allowed to impose bills which were

'disproportionately' high. Restraint has been achieved in a number of ways, the first being by design since the differences between the highest and lowest bills are limited to three times the lowest bill. As later sections show, restraint has also been explicitly achieved through the use of capping powers as well as implicitly through the effects of gearing.

The next section moves on from the design characteristics of the Council Tax to consider the tax's relationship with the other elements of the local finance system, in particular capital value as a tax base, the Revenue Support Grant and their implications for the distribution of the Council Tax.

3.3 Council Tax, Capital Value and the Grant System

Having explored the implications of the 'internal' characteristics of the Council Tax, this section concentrates on the 'external' relationship between the Council Tax and the Revenue Support Grant system. This discussion also considers the use of capital value as a tax base since its geographical distribution inherently relates to the operation of the Revenue Support Grant. The discussion of the interrelationship between the Council Tax and the operation of the grant system is crucial to the empirical analysis of the general distribution of the Council Tax considered in Chapter Five as well as to the issues dealt with in later chapters. The following sections consider the broad influences of capital value as a tax base and operation of the Revenue Support Grant in general terms. In the latter sections of this chapter more specific and detailed influences are considered in the context of the thesis's empirical analyses.

3.3.1 **Capital value as a tax base** : One of the fundamental changes made by introduction of the Council Tax is that the local tax base has shifted from liable adults to, chiefly, the capital value of domestic property. The use of capital value as a tax base is complicated by capital value's uneven distribution. The distribution of the Community Charge's tax base, taxable adults, was even across the country - one adult paid one Community Charge whether in Brighton or Bradford. Under Council Tax the distribution of taxable resources is very uneven since capital value is geographically distributed - two identical properties in Brighton and Bradford could be in Band F or in Band B depending upon their location. The geographical distribution of capital value has significant implications for the operation of the grant system since greater resource disparities exist under Council Tax than under Community Charge. As a further consequence, the tax burden imposed by the Council Tax will also be geographically distributed. This issue will be returned to below, as well as in Chapter Eight which considers provides an empirical analysis of the effects on household tax bills of the transition from the Community Charge to the Council Tax.

Because theoretically rateable value and capital value should vary systematically, it might be expected that the Council Tax's distribution would resemble that of the rates. However, because of infrequent revaluation surveys as well as other influences discussed in the previous chapter, the geographies of rateable and capital value are far from being coincident (Wyatt, 1983). Although the geography of capital value is shaped by a constantly shifting free market, the banding process introduces the same form of rigidity found in the rates system because of the need for a specific date on which valuations are to be based. The government's Consultation Paper claims Council Tax revaluation surveys will be unnecessary since, unlike the old precise rateable values, capital values can vary within a valuation band. However, work by Giles and Ridge (1993) suggests that the chosen valuation date, April 1st, 1991, has had a considerable influence on regional tax bills. Giles and Ridge suggest that had the valuation date been a year later, bills in Greater London could have been up to £20 per property lower. Although the property market was exceptionally volatile during the late 1980s, it has demonstrated that regional property price differentials can change significantly over relatively short periods of time. Despite the accountability problems induced by revaluations (tax bills change for reasons other than changes in local spending), regular revaluations seem to be essential to the long term credibility of the Council Tax.

3.3.2 **Capital value and resources equalisation** : The most significant implication of the geography of capital value is the need for resource equalisation. Because the rate of tax varies for different value properties, it is clear that if a local authority has the majority of its tax-paying properties in Band A then its taxable resources are very much lower than a local authority most of whose properties fall into Bands G and H. A size of a local authority's taxable resources is expressed as 'Band D equivalent properties', a high value area having a higher number of Band D equivalent properties. In order to compensate for these differences in taxable resources, there is a resources element within the central government Revenue Support Grant to each local authority. Local authorities with few Band D equivalent properties receive a higher resources element within their grant allocation than those local authority with more Band D equivalent properties. The Revenue Support Grant equalises not only for differences in resources but also for differences in need (through Standard Spending Assessments) in order to allow all local authorities to levy the same tax rate for the same level of spending. Without resources equalisation, local authorities with low resources would be forced to levy much higher bills per property for the same level of spending as a local authority with greater taxable resources. A situation where identical households in different parts of the country, receiving identical services from their local authority face different bills is horizontally inequitable. Without equalisation households living in low resource areas would be subject to relatively higher taxation, or would find that the services provided by their local authority would be at a lower level or of worse quality than those provided in high resources areas. If these differences in resources were

left uncompensated in the long term, Tiebout-type fiscal migration could be induced as households sought to move to areas where local tax levels were low for a relatively higher standard of local services (Dowding, John and Biggs, 1994). Since those unable to move are likely to be those who are least able to pay tax and most in need of local services, a vicious circle of growing expenditure need and declining taxable resources would be established. Equalisation therefore allows a central government to prevent inefficient fiscal migration as part of the stabilisation function of public finance.

Despite the operation of the grant system regional differences in average Council Tax bills will persist because of the combination of the geography of capital value and the resources equalisation process. Equalisation operates in order to provide local authorities with the ability to impose a standard rate of local taxation. That 'standard' rate is expressed in terms of the tax payable on a Band D property. In order to compensate a low resourced authority, the authority receives a high resources grant. This means that although the local authority will be able to set its Band D at the national average for spending at Standard Spending Assessment, the average household bill will be closer to Band A and Band B bills because of the predominance of lower band properties. In a high resource authority the reverse will be true, because the authority has a high tax capacity it will receive a low resources grant. Thus if the authority sets an average Band D tax rate, the average household bill will still be much higher.

3.3.3 **Implications of the geography of capital value** : The implications of the geography of capital value can be illustrated by a comparison of regional average and modal capital value bands. On the Council Tax's introduction, a national average Band D tax rate (at the time £533) was frequently used for comparison with the average 'headline' Community Charge for England.[1] The geography of capital value rendered the Band D, average 'England' figure meaningless. The average property value in London fell into Band F implying a bill of £755 (on the basis of the figure above) whilst in Yorkshire and Humberside the average value band of Band A implied a bill of £349. Furthermore, an average capital value band does not necessarily equate with a modal band (i.e. the band which is most common or into which the most properties fall). For example, in East Anglia the average property value would fall into band C whilst the modal band is Band A. The modal band bill will represent the most common experience of the new tax for local authority residents. Occupants of average value Inner London homes are likely to pay 30% more in local tax than the bill for an average Band C home, the average value across the whole of England. Residents of outer London, the rest of the South East and the South West are also likely to pay more than average tax-payers elsewhere. From this it is

[1] By 1994, government ministers were quoting Band C, rather than Band D, figures. Not only was this politically convenient, it was also thought Band C figures better represented average capital values and tax levels across the country.

clear that the geography of capital value and its interaction with the grant system has significant implications for the distribution of the local tax burden at the household level.

3.3.4 **Patterns of tax and expenditure levels** : An element in the complex interaction of the grant system and the Council Tax is the patterns of expenditure and taxation which have been set under previous tax and grant systems. Neither local authority expenditure or tax levels can be changed rapidly in response to changes in the grants system or to changes in the local domestic tax system. As a result current patterns of taxation and expenditure are in part the results of previous, historic tax and expenditure decisions.

Significant changes have occurred relatively recently in terms of the taxable resources which are controlled by local authorities. Up until the introduction of the Community Charge, local authorities had the power to set their own tax rates for non-domestic rate payers. The Community Charge legislation removed this power and substituted a system under which non-domestic rates were set by central government, the proceeds pooled and then distributed to local authorities on a per capita basis, the National Non-Domestic Rates are effectively an assigned revenue. This has had the effect of reducing the proportion of revenue over which local authorities have control. The effect has been most pronounced on local authorities which previously had substantial non-domestic rates income, particularly the high rateable value areas of the South East and London.

In addition to patterns of taxable resources, there are expenditure patterns which have been established over a number of years which can contribute to higher or lower average rates of local taxation. Some distinctions can be made, for example, in the spending preferences of different types of authority. Broadly, Labour run authorities, particularly those in metropolitan areas have tended to have higher spending than their non-metropolitan counterparts run by Conservative administrations. However, more complex influences on average tax levels also exist, particularly those arising from changes in the operation of grant systems. A good example of the effect such changes can have on local tax levels is the experience of the local authorities in Yorkshire and Humberside. These authorities had been compensated by the grant system for their loss of revenue in the shift from rates to Community Charge through Area Protection Grant. The inadequate integration of this grant into the new grant mechanism on the introduction of Council Tax has forced Yorkshire and Humberside authorities into higher average tax rates than other low capital value areas (CIPFA, 1992). The grant system, particularly prior to the Standard Spending Assessment system's introduction when needs assessment was based upon regression analysis, tended to take patterns of past expenditure as indicators of the need to spend in the future. Those authorities which had relatively high levels of expenditure tended to receive higher grant levels in future years. The more recent changes to grant distribution have limited the ability of local authorities to increase spending levels but have not resulted in

any substantial rearrangement of historic patterns of expenditure and tax levels. Thus to some extent those authorities that spent at higher than average levels have tended to retain those levels of expenditure. Though the effect of capping and other forms of restraint on local authority spending has been to close the gap between the highest and lowest spending authorities, it has also 'locked in' these patterns of expenditure.

3.3.5 **Conclusion** : The preceding sections have illustrated that the distributional effects of Council Tax's complex hybrid design are complemented by a number of 'external' influences. Importantly, the effect of the geography of capital value is to contribute a specifically spatial dimension to the tax's distribution. As a result the Council Tax's burden will be unevenly distributed not only across income groups and different household types but also on a geographical basis.

3.4 Council Tax : Empirical Analyses

The previous sections have given a detailed analysis of the distributional issues arising from the design of the Council Tax and its relationship with the other elements of the local finance system. The following sections build upon this analysis to concentrate upon the specific issues which concern the thesis's empirical analyses presented in later chapters. The initial section deals with the broad influences on the Council Tax's distribution and provides a context for the subsequent, more detailed empirical analyses. The subsequent sections then consider a number of detailed issues concerning the implications of the interaction of capital value and the grant system on local tax levels. The final section deals with the implications arising from the transition from the Community Charge to the Council Tax.

3.4.1 **Standard distributional analysis** : The empirical analysis of the Council Tax's distribution has to begin with the fundamental distributional issues of public finance which can be summarised as who pays, what and where ? The most basic issue of tax analysis is whether a tax is progressive or regressive. Previous distributional studies of the Council Tax by Giles and Ridge (1993) and Hills and Sutherland (1991) have suggested that overall the Council Tax is a regressive tax though the benefit system prevents this adversely affecting those on the lowest incomes. The analysis of household level Council Tax bills given in Chapter Five offers a comparison with these analyses. This empirical analysis is based on the results of modelling the Council Tax on a set of data from the Nationwide Anglia Building Society which comprise the details of over 70,000 households distributed across the country. The following chapter provides details of the methodological approach taken by the empirical work. The modelled results provide average Council Tax bills for different income groups, allowing analysis of the basic distributional issue of the degree of the Council Tax's progressiveness or regressiveness.

This national level analysis of the distribution of the Council Tax across income groups can be extended to consider the broad impact of other influences upon the distribution of the Council Tax. Previous sections have highlighted the implications of the Council Tax's use of capital value as its tax base, in particular the effects of the geographical distribution of capital value on household Council Tax bills. Because the Nationwide Anglia data allow Council Tax to be modelled at the regional level, it is possible to analyse the effects of the geography of capital value on the Council Tax's distribution both regionally and in terms of income groups. In considering regional income groups figures, the issue of horizontal equity of the Council Tax can be addressed. The regional analysis provides an assessment of the effect of the Council Tax's banding structure on the range of household level bills. Previous sections have suggested that in very high value areas, there is a 'threshold' capital value below which no property is available. This leads to an equivalent 'threshold' Council Tax liability which all households face, irrespective of income. The implication of a regional capital value 'threshold' is that the more usual relationship between capital value and income is weakened in these areas, potentially causing greater regressiveness. The analysis of Council Tax bills across income group results allow assessment of the degree to which Council Tax's regressiveness is regionally differentiated.

The third distributional issue raised by previous sections has been the influence of the 25% reduction for single adult households. It has been suggested that this reduction will interact with the geography of capital value differentially to influence the degree to which single adults are adversely influenced by the Council Tax. This is an issue which is taken up in greater detail in Chapter Eight which considers the distributional impact of the transition from the Community Charge to the Council Tax, including the effects of the Council Tax Transitional Relief Scheme. The regional analysis of Council Tax bills in terms of different types of household deals with the broader issue of the relationship between capital value banding and income. Because the analysis by type of household controls for the number of taxable adults it is possible to consider the degree to which banded capital value correlates with household income. This issue obviously relates to the essential distributional issue of the extent to which Council Tax is progressive or regressive - if banded capital value and household income are significantly uncorrelated it is likely that the regressiveness introduced by the Council Tax's design will be compounded by the tax's implementation.

3.4.2 **Council Tax as a household tax** : The previous sections have alluded to the appearance of Council Tax as a household tax under certain circumstances. A household tax is a flat rate tax levied on a household, irrespective of the number of adults. In terms of public finance analysis a household tax is appropriate and efficient tax if the benefit derived from local services is better related to households than, for example, to capital value or to the number of individuals in a household. This is most likely to be true where

local services are principally related to property but where benefit did not rise with the size of a property, for example fire and police protection, sewerage and street lighting.

Although the range of services provided by British local government go far beyond the limited type of services described above, there are circumstances in which Council Tax appears as a household tax. The appearance of a household tax is created by the capital value banding system in two technical senses, and a further third, more significant sense. The first technical sense occurs in that once a property has been recognised as being liable for Council Tax in Band A or Band H, capital value plays no more part in determining liability, irrespective of whether the property's value is much lower than the Band A threshold or much higher than the Band H threshold. The second technical sense in which Council Tax appears to be a household tax is in circumstances where all adults occupying a property are exempt from Council Tax (a second home or an all-student household). A household with these circumstances is still required to pay at least half the local 'standard' Council Tax bill. The third and most important sense in which Council Tax is a household tax is due to banding. In some local authority areas the local property market produces a truncated range of property prices. This is particularly true in areas of very high or very low average property prices with a relatively homogeneous stock of property. In these areas, it is possible that a majority of properties will fall into a single or two Council Tax bands. Effectively the range of bills which can be levied, already limited by the design of the banding structure, is limited even further. In very low average value areas the majority of properties will fall below the £52,000 upper threshold of Band B. According to estimates made by the Department of Environment (1991b) this is the case in Wigan where over 80% of properties fall into Bands A and B. At the other end of the capital value spectrum are areas such as South Buckinghamshire and Barnet where 65% of properties in fall into Bands F and G. There are other areas with average property values as low or as high as these examples but few of them have the same degree of homogeneity of property which produces the truncated range of capital value bands. The City of Westminster has some of the most expensive property in the country but it also has some very much less expensive properties, making it unlikely that it will be affected by this aspect of the Council Tax.

The implication of this concentration of properties into one or two Council Tax bands is that the property tax element of Council Tax becomes invisible. Since almost all households will pay similar bills, irrespective of their household incomes, for most households the Council Tax will be levied as a flat-rate household tax. For single adult households in these areas the Council Tax will be levied virtually as the Community Charge - a flat-rate poll tax. In terms of taxation principles, this compromises vertical equity since households of different abilities to pay have similar tax bills. Vertical equity is an issue only in relation to ability to pay taxation, with benefit taxes the issue of vertical equity is

irrelevant so long as a tax-price accurately reflects the benefit derived from local public goods. However, as noted in previous sections, the pattern of benefit distribution makes a flat-rate tax - whether a per capita or household tax - inappropriate as a tax for British local government services.

The Nationwide Anglia data enable Chapter Seven to present an empirical analysis of the impact of Council Tax as household tax on Council Tax bills of households in different income groups.

3.4.3 **Council Tax, accountability and gearing** : Previous sections have dealt with the general issues arising from the interaction of the Revenue Support Grant system and Council Tax's use of capital value as a tax base. The following two sections deal with this interaction in greater detail, focusing in particular the issues of gearing and the resources effect. These issues are investigated empirically in Chapter Six.

In the final years of the Community Charge, following Norman Lamont's general reduction of £140 in headline bills, the proportion of local government revenue raised locally fell to under 15% with the remaining 85% being derived from Uniform Business Rates and central government grants. The Council Tax's Consultation Paper (DoE, 1991a) committed the government to the retention of this level of central funding. As well as concern for local autonomy, this balance of funding raised the more technical but related issues of gearing and the resources effect. Under Council Tax the grant system operates to equalise both needs and resources for spending at Standard Spending Assessment (SSA), the government's assessment of what a local authority needs to spend to provide a notional level of service. If a local authority spends above this level, (assuming that the authority is not prevented from doing so by central government), all the additional revenue must be raised locally without recourse to additional central government funding. The result of this is very high gearing ratios for spending above SSA, i.e. small increases in spending above SSA produce disproportionately large increases in tax bills. Giles and Ridge (1993) calculate that an average local authority has gearing ratio of around 7:1. This implies that a 10% increase in spending above SSA produces a 70% increase in Council Tax bills. The range of gearing ratios for English authorities stretches between 2:1 to 12:1 - highly resourced, low needs authorities having the lowest gearing ratios since they are best able to raise revenue locally and have the least need to spend. Very high gearing ratios make it highly unlikely that a direct and proportional relationship between local spending decisions and local tax rates will exist under the Council Tax. This represents a huge problem for local accountability, noted by the Consultation Paper noted as the primary principle guiding the review of the local finance system. If an authority's expenditure exceeds its Standard Spending Assessment even marginally, the increase in local tax bills required to make up the shortfall from Council Tax receipts is likely to be out of proportion to the funds needed.

This undermines accountability because changes in local tax levels do not relate directly to changes in spending. In terms of the government's analysis this produces very misleading price signals to the local electorate. The higher the proportion of funding provided from central sources the more significant the gearing problem becomes.

The significant reduction in the proportion of revenue which is derived from sources over which local government has control, combined with a strict capping regime, means that local government's ability to absorb changes in e.g. spending need or grant allocation has been significantly curtailed. As a result, marginal changes in the amount of central government grant allocated become critical in determining local tax rates and force great attention to be paid to the means by which grant allocation is made. In particular, the Standard Spending Assessment system has become the focus of critical attention. The most significant problem is the government's implicit assumption of the assessments' precise accuracy. Spending above SSA is regarded as being the result of inefficiency or locally mandated spending (in which case it is appropriate that such spending should be financed from local sources). Difficulty occurs because SSAs do not perfectly reflect the need to spend, an error within assessments of around 5% has been estimated (Audit Commission, 1993). But the effect of this level of error could be catastrophic in budgetary terms since the gearing ratio of an average local authority translates this into a 30% difference in local tax levels to make up the shortfall. It clear that this level of tax change significantly undermines local accountability. Giles and Ridge (1993) point out that if a local authority spends £100 per dwelling above Standard Spending Assessment, local bills increase by £100 per dwelling, irrespective of the authority's gearing ratio. Nevertheless, the highest gearing ratios are found in low resources, high needs authorities whose need for spending above SSA is likely to be greatest but whose residents will be those least able to afford additional taxation.

3.4.4 **Council Tax and the resources effect** : The gearing problems of Council Tax are compounded by the geography of capital value to produce a resources effect. The resources effect arises from the operation of the grant mechanism's resource equalisation which allows local authorities to levy a standard Band D tax rate for spending at Standard Spending Assessment. In other words, the grant system provides only for partial equalisation, i.e. equalisation for spending only at Standard Spending Assessment. The resources effect, a term coined by Giles and Ridge (1993), results from the differential abilities of local authorities with different taxable resources to raise additional revenue above their Standard Spending Assessment. Highly resourced local authorities such as Barnet can finance an additional £100 of tax at a lower Band D rate than an authority with far fewer higher banded properties. Because capital value is uneven distributed over space there is a geography of revenue raising capacity for spending above Standard Spending Assessment both nationally and regionally. It is clear that suburban authorities are likely to

be able to raise additional revenue far more easily than their inner-city counterparts. Similarly, a highly resourced South Eastern local authority will have much greater access to locally raised revenue than a North Western authority. In public finance terms horizontal equity is compromised by the resources effect since similar households, occupying similar properties in different parts of the country or region can be treated differently by the fiscal system.

The empirical analyses presented in Chapter Six demonstrate that the financing of spending above SSA has significant, geographically distributed implications for the distribution of Council Tax bills at the household level.

3.4.5 **From Community Charge to Council Tax :** It is amply clear from the analyses both of the Council Tax's design and of its interaction with the other elements of the local finance system that the shift from Community Charge to Council Tax produces a complex redistribution of the local tax burden. This redistribution has been made in a number of directions. Considering the conclusions of previous distributional analyses which found the Council Tax to be a regressive tax, it seems likely that the redistribution of the tax burden away from the lower income groups towards higher income groups will be less pronounced than the perception of the Council Tax as an equitable tax might suggest. This redistribution in terms of income group seems likely to be geographically distributed - higher value south eastern authorities' Council Tax burdens are likely to be more strongly redistributive because of higher average capital values and because the minimum 20% contribution to the Community Charge has not been carried through into the Council Tax.

The shift from Community Charge's strictly benefit, per capita tax to a tax like Council Tax with its rather less distinct tax pedigree inevitably produces some degree of redistribution of the local tax burden in terms of types of households. One of the issues arising in this context is the effect of the 25% reduction for single adult households. The issue is the extent to which this reduction protects single adults from the shift back to (chiefly) property taxation from the per capita Community Charge. It seems clear that the effectiveness of the 25% reduction depends upon a number of factors, including prior Community Charge and rates levels, as well as the capital value of a household's property. This suggests that the effects of the 25% reduction will also be geographically distributed. This geographical distribution will also be relevant to the experiences of the transition of the other types of households. At the other extreme from single adult households are multiple adult households which experienced very large total Community Charges. For these households the Council Tax is likely to represent substantial reductions in local tax liability.

Resource equalisation is also likely to contribute to the geographical redistribution of the local tax burden since authorities with higher resources raise more revenue locally under

Council Tax than under Community Charge. Local authorities in the higher capital value areas are likely to experience an overall decrease in grant levels and an increase in tax revenue raised locally (although spending is unlikely to have changed), with the reverse being likely in lower value areas. The analysis of the redistribution in terms of household types is augmented by a similar analysis in terms of income groups.

Chapter Eight considers in detail the distributional implications of the transition between Community Charge and Council Tax, including the Council Tax Transitional Relief Scheme (CTTRS). By modelling household Community Charge and Council Tax bills, the tax changes experienced both by different types of households as well as different income groups can be analysed. Because the analysis can be extended to the regional level it is possible to consider the differential effects of capital value on the change in tax bills for different types of household with different household incomes. The pattern of distribution will be influenced by the CTTRS. The scheme is designed to ease the introduction of the Council Tax by preventing excessive rises local tax bills due to the transition (rather than increases caused by rises in local tax rates). For each capital value band, the CTTRS allocates a 'threshold' over which any increase in household bills are subsidised by central government. Thus the redistribution of the local tax burden by the Council Tax, including the CTTRS, is determined in part by prior Community Charge levels. Thus, single adult households are likely to benefit significantly since this group had low prior Community Charge levels and face higher bills under Council Tax. By contrast multiple adult households will experience little benefit from the CTTRS. The geographical distribution of capital value makes it likely that the greatest benefit from the CTTRS will be for households in high value regions, the regions with the greatest average tax changes. Because of the relationship between capital value and income, it is also likely that there will be an accompanying distributional effect in that the greatest benefit from the CTTRS will be felt by higher income households.

3.5 Conclusion

This chapter has provided a detailed analysis of the Council Tax and the likely influences on the distribution of household tax bills. The first sections have shown that the internal design of the Council Tax is a complex hybrid of a number of different types of taxes, principally a form of property tax with elements of a personal tax. In terms of public finance analysis it seems that the rationale which underpinned Community Charge has also influenced the design of the Council Tax. However, the need for popular acceptance has tempered the distributionally extreme characteristics of Community Charge. The adoption of capital value as a tax base suggests that the Council Tax's burden will be geographically distributed and that this will translate into a geography of tax burden at the household level despite the operation of a resource equalising grants system. In short, the Council Tax's distribution will result from a complex interaction of influences which will operate

differentially in a number of dimensions - in the geographical dimension, in terms of income groups and in terms of household types. The second half of the chapter has considered the specific issues which are the focuses of the thesis's empirical analyses presented in the later chapters. The first empirical, 'standard' analysis of the Council Tax considers at a relatively broad scale the household distribution of the Council Tax across income groups, different types of household living in different regions. The chapter then considered the detailed issues of Council Tax as a household tax and the resources effect, both of which relate to the Council Tax's banding structure and its use of capital value as a tax base. The discussion of the final empirical analyses considered the redistribution of the local tax burden which is implicit in the transition from the Community Charge to the Council Tax.

Having discussed the issues arising from the Council Tax and the empirical analyses on which the thesis focuses, the next chapter is devoted to the discussion of the methodological approach taken in the thesis's empirical analyses, including details of the modelling process and the Nationwide Anglia Building Society data.

Chapter Four

Methodology

4.1 Introduction

This chapter discusses in detail the analytical approach taken to the distributional analyses of the Council Tax presented in the following chapters. This chapter links the previous chapters' broader theoretical and policy discussions to the specific research and methodological issues which the thesis confronts. The chapter is divided into three parts, the first part places the thesis's methodological approach, which is based on tax / benefit modelling and assessment of differential fiscal incidence, in the context of a broad range of empirical approaches to distributional analysis. In the second section, the specific approaches taken by previous distributional analyses of the Council Tax are critically examined. This discussion provides a context for the final parts of the chapter which provide a detailed account of the tax / benefit methodology employed in the thesis's empirical research, dealing in particular with the advantages and limitations of the data upon which the thesis's empirical analyses are based.

4.2 Analysis of Fiscal Incidence

The empirical analyses presented by this thesis focus upon the impact of the Council Tax and are based upon a distributional model of the tax's introduction. The following section outlines the wide range of potential methodological approaches to the empirical assessment of the implications of changes within a fiscal system. This provides a brief context for the thesis's own modelling approach to distributional analysis.

4.2.1 **Fiscal incidence** : Distributional analyses of taxes essentially deal with the implications of what in public finance terms is known as fiscal incidence, the pattern first of taxes levied on different income groups and second, the pattern of income derived from government expenditure. Despite the obvious importance of both the expenditure and tax sides of the fiscal equation, the attention of public finance analysis has traditionally focused more upon the incidence of taxes, rather than expenditure. This is largely due to the relative ease of empirical analysis of monetary figures of tax incidence as opposed to the less easily quantified income derived from government expenditure. The discussion below will principally use examples from analyses of taxation, rather than expenditure, incidence. One of the basic conceptual distinctions in the study of fiscal incidence is between formal and final incidence. Although a government may impose a statutory or formal tax burden upon a particular set of individuals or firms, this burden may be passed on to other firms or individuals to create a pattern of final incidence (also known as effective or economic

incidence). In public finance terms this process is known as tax shifting. The process of how the statutory incidence of a tax is shifted to its final incidence and the implications that process has for prices, supply and demand as well as other elements within an economic system is one of the fundamental objects of the study of fiscal incidence and public finance more generally. The analysis of this process has been undertaken in abstract theoretical terms as well as in terms of both macro and micro-level econometric models based on empirical data.

4.2.2 **Approaches to fiscal incidence** : Musgrave (1959) proposes a division of approaches to the analysis of final fiscal incidence of taxes (rather than expenditure) into absolute, differential and budget-balance incidence analyses. The **absolute incidence** approach assesses the distributional effects of a single fiscal measure whilst holding other influences, such as expenditure, constant. This approach compares the effect of a modelled fiscal measure with the previous scenario where the tax did not exist but with all ceteris paribus conditions remaining in place. Although a useful analytical tool for abstract studies, in terms of empirical analysis this approach presents difficulty in that empirical data cannot be found for a scenario which did not exist, in other words the basis for comparison has to be assumed. The **differential incidence** approach assesses the distributional implications of substituting one tax for another whilst holding total taxes and expenditure constant, in other words the implications of the redistribution of the same tax burden. This avoids the difficulty of the absolute differential approach which fails to account for broader macro-economic changes resulting from a fiscal change - if taxation increases with no compensating increase in expenditure the model cannot account for the subsequent reduction in aggregate demand. This approach is particularly useful in making comparisons of the household or micro level incidence of different forms of taxation raising the same level of revenue and has been used extensively in such studies (e.g. McLure, 1977). This is the approach most used extensively in this thesis through the use of tax / benefit models at the micro level. The final approach is **budget incidence** which considers the implications of the combined effects of both tax and expenditure changes. Although aggregate changes in taxation and expenditure balance, individual household incomes are affected both by the patterns of taxation as well as those of expenditure - in other words the approach considers micro level incidence redistribution within different total budgets. The macro-economic scale, budget-balance approach is problematic in that it is difficult to measure different forms of personal income derived from government expenditure.

4.2.3 **Methods of assessing fiscal incidence** : It is clear from the section above that assessment of differential fiscal incidence and tax shifting represents a rich research field so it is unsurprising that there are a great number of different methodological approaches to its study. There are two basic divisions which are useful in identifying these different

methodological approaches. The first is between macro and micro-economic analyses. Macro-economic analyses deal with the implications of fiscal policy in terms of broad aggregates such as an economy's output, employment or growth. Micro-economic analyses focus on the assessment of the impact of fiscal changes on individual components within an economic system - firms or particular groups of individuals or different types of households. Micro-economic analyses also deal with individual taxes (rather than entire fiscal systems) and micro-economies of particular geographical areas. Though this draws a distinction between the micro and macro-economic analyses, the two forms of analysis are closely related. It is clear that micro-level final incidence implications of fiscal measures ultimately depend upon their macro-level implications for output and employment. Likewise the implications on output and employment of fiscal changes depend upon their distributional effects. Thus although macro-economic analyses study the implications of fiscal policy in terms of broad economic aggregate indicators, the ultimate implications of fiscal final incidence lie in the realm of micro-economic analyses of individual households or firms. In other words, macro and micro-economic analyses examine the same phenomenon but with different methodological approaches and with different analytical purposes.

A second distinction is between general and partial equilibrium modelling techniques. This division holds both for operationalised, empirical studies of fiscal incidence as well as for purely theoretical studies. General equilibrium analysis deals with the implications of fiscal policy across an entire economy, ideally taking into account changes arising from feedback effects. In other words, this form of analysis treats all variables as endogenous to the analysis without holding some analytical elements constant or assuming *ceteris paribus*. This allows all the interrelationships within an economy to operate simultaneously. For example, interest rates, left unfixed *ab initio*, can be set by a modelled relationship between demand for money and money supply. Because of the level of complexity involved in modelling these sets of interrelationships in order to establish a general equilibrium, as well as its considerable data demands, this form of analysis is usually undertaken only at a relatively aggregate scale. The commonest form of general equilibrium analysis is of entire national economies, at a macro-economic scale, where the implications of fiscal policy can be traced in terms of broad aggregate economic variables such as total government expenditure, aggregate demand and supply, inflation and unemployment. These models suggest how an economy might react in responses to changes in fiscal policy - for example, an increase in interest rates or a cut in the standard rate of income tax. General equilibrium macro-economic analyses range from purely theoretical views of how an economy operates at the macro-scale through to empirical models based on data on an economy's past behaviour and theoretical speculation on the relationships between different aggregate components of the economy. These analyses both inform academic, theoretical economic debate as well as provide practical assistance to

the Treasury and other financial institutions in assessing the likely macro-economic impacts of different fiscal policy options.

Partial equilibrium analyses examine individual components within an economy, often a single market, by holding the other parts of the economy constant whilst the effects of an economic change are traced through e.g. the effect of an increase in interest rates upon the housing market. In effect, partial equilibrium analyses require *ceteris paribus* to be assumed, in other words the interaction between the market under study and the rest of the economy has to be regarded as being of less analytical importance in comparison with the internal operation of the market under study. Partial equilibrium analyses are commonly used in both theoretical and empirical work for reasons of simplicity. By holding some elements in the fiscal equation constant, a greater depth and simplicity of analysis is possible as well as minimising the depth and complexity of the data demands made by empirical analysis. The use of the *ceteris paribus* assumption limits the application of partial equilibria macro-econometric approaches to relatively short-run phenomena or to theoretical exposition. This is because at the macro-economic scale it is conceptually difficult to isolate a single market since macro-scale interaction between markets is usually more important than the operation of a single market. Nevertheless, at the micro-economic scale, partial equilibrium analysis is particularly useful in terms of empirical analysis. Through using partial equilibrium modelling techniques, the necessity of relating expenditure and taxation incidence is removed and the analysis is much simplified by assuming that expenditure remains constant.

There is a vast range of studies of final fiscal incidence, the review of which lies beyond the scope of this thesis. Of the approaches noted, the differential incidence approach is the most frequently used in micro-economic or household level analyses and is the most relevant to the level of analyses of this thesis. Bennett and Krebs (1988) identify three main methodological approaches to differential incidence analysis - the assumptions approach; the econometric approach; and the micro-economic approach. The **assumptions approach** uses an *a priori* set of assumptions regarding the effects individual taxes or types of expenditure will have on tax shifting. These assumptions are used to create a composite pattern of tax shifting for expenditures and taxes under analysis. Musgrave and Musgrave (1980) use this approach in their analysis of the final incidence of the United States' fiscal system. As Bennett and Krebs point out, the difficulty with this approach is that although the individual relationships used to build up the composite economic model are usually based upon empirical data, the results from this approach are only as good as the assumptions on which the results are founded. **Econometric approaches** to differential final incidence use empirical data to model both partial and general equilibria for different tax shifting scenarios. A wide range of econometric models have been developed in this area, many of them concentrating upon the incidence of single

taxes, particularly corporate taxes.[1] The third approach identified by Bennett and Krebs is the **micro-economic approach** stemming from the pioneering Harberger (1962) general equilibrium model for the incidence of corporation tax.[2] This approach, based on *a priori* micro-economic assumptions about e.g. the substitution effects of tax incidence, has been expanded substantially by subsequent studies into the study of other taxes, e.g. into the study of property taxes (e.g. Aaron, 1975)

4.2.4 **Fiscal incidence of local taxation** : The previous sections have outlined a number of methodological approaches to final fiscal incidence, including analyses under partial and general equilibrium conditions at both macro and micro-economic scales. However, the principal focus of this thesis is the household level distributional implications of the Council Tax. This focus leads to significant analytical (and therefore methodological) differences in comparison with the focuses of the analyses which have been outlined in the previous sections. The most basic difference between these analyses is that the analysis presented within this thesis is of local taxation. Almost all the previous empirical analyses have dealt with fiscal incidence at the national level, Bennett and Krebs' (1988) work is exceptional in that it presents the first detailed empirical analysis of local business taxation's formal and final fiscal incidence in any country (although theoretical work on sub-national taxation has been undertaken elsewhere). As has been noted previously, the local tax burden is geographically distributed, thus requiring a geographically oriented analysis. A second difference is that the analytical focus is upon the implications of local taxation at the household level, rather than towards the macro-economic level (though this is the focus of other studies of local taxation, e.g. Bennett, 1986). These very significant differences in analytical approach suggest that the methodological avenues set out by the incidence analyses noted previously are not necessarily the most appropriate for household distributional analyses. The following section considers tax / benefit modelling as an alternative approach to the analysis of these issues.

4.2.5 **Tax / Benefit modelling** : By contrast with the types of analysis noted above, tax / benefit modelling is concerned with the distributional implications of final fiscal incidence of taxes and benefits at the household level. In other words, tax / benefit modelling does not deal with the implications of fiscal incidence in terms of broad economic aggregates that are the focus of macro and micro-economic studies. Instead, tax / benefit models simulate the effects of a change in one or several elements of a tax and benefit system on a sample of individuals or households. Unlike many of the previously noted approaches which have

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1 For a comparison of different general equilibrium approaches, see Devarajan, Fullerton and Musgrave, 1980.

2 For a review of developments of the Harberger model, see McLure (1975).

been concerned with abstract analyses, tax / benefit models have been firmly oriented towards the assessment and design of actual government policy. To this end, such models are based upon representative household sample data derived from sources such as the Family Expenditure Survey. These data allow analyses based on tax / benefit models to make inferences about the effect of policy changes not only on a whole population but also on important sub-groups of the population such as the elderly or single parent households. Tax / benefit models' ability to analyse broader economic implications are correspondingly limited, usually to the implications of a policy change on government tax receipts or benefit expenditure.

Tax / benefit modelling can complement macro-economic modelling by providing policy-makers with the ability to analyse the household level effects of policies already in place and, hopefully, to project the likely effects of any proposed policy or change in existing policy on households of different compositions and incomes in different parts of the country. Despite this potentially vital role in the formulation and refinement of economic policy King argues that the type of micro-economic policy research represented by tax / benefit modelling remains the 'Cinderella' of economics (King, 1988). King suggests that there has been an overemphasis on macro-economic analysis which has been detrimental to the overall management of the British economy. Successive governments have attempted to control macro-economic aggregates, such as the absolute level of unemployment, over which governments have relatively little (and declining) influence. Instead, King argues that governments should concentrate to much greater extent on micro-economic policies, such as the level of unemployment benefit, over which they have far greater control and which have a far greater immediate impact on the welfare of the population. Tax / benefit modelling has a fundamental role to play within this conception of government policy formulation. As King puts it:

> 'If we are to understand why certain policies are adopted, and what are their effects, then we must be able to answer the question 'Who gains, who loses ?'. In other words, a priority in the development of a distributional policy model is to analyse the distribution of gains and losses resulting from any given change.'
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> King, 1988, p.56

There is a great variety of tax / benefit models but a distinction may be drawn between the macro-level, flexible models of the entire tax and benefit system (analagous to general equilibrium) and micro-level models of discrete parts of the tax and benefit system, more akin to partial equilibrium models. Because macro-level tax / benefit computer models simulate the entire tax and benefit system these models can analyse the complex interactions between the national social security and tax systems, as well as with the national insurance and (to some extent) local government taxation systems. Thus a macro-level model is able to assess how a change in rates of National Insurance Contributions would affect some

households' eligibility for Income Support and therefore Council Tax Benefit. Such is the complexity of these interactions that even a very minor policy change can have a significant but unintended impact on a variety of population groups. Similar to macro-economic models, the macro-level tax-benefit models treat all elements of the tax / benefit system as endogenous to the model. In Britain, macro-level tax / benefit models have been developed both by government departments such as the Departments of Health and of Social Security as well as by academic research projects such as the ESRC's programme on Taxation, Incentives and the Distribution of Income which initiated the development of TAXMOD. Research bodies such as the Institute for Fiscal Studies have also developed their own models, TAXBEN and TAXBEN2. TAXBEN2 and TAXMOD will be briefly considered in subsequent sections. By contrast, the less flexible micro-level tax / benefit models, similar to micro-economic models, focus in much greater detail on the immediate distributional implications of a single tax or benefit change rather than the broad implications across the entire tax and benefit system. These micro-level models treat a great many factors as exogenous to the policy under analysis. Though relatively simple, the depth of analysis such models can achieve is often greater than the more sophisticated, generalised models. This greater depth of analysis is usually achieved because the sample data required for the analysis of a specific policy is less generalised than the data required for general models' analysis of a range of potential and actual policies.

This type of micro-level partial modelling of the distribution of the tax burden has a much longer historical background than the more generalised, computer-led modelling. Studies of the distributional impact of local taxes stretch back to Goschen's studies of the impact of rates during the latter part of the 19th century (Goschen, 1872). One of the criticisms of Goschen's studies was that although his work on the impact of rates was recognised as important, the studies were unable to provide evidence of the overall impact of all taxes (as a macro-level tax / benefit model would), rather than the simple impact of an individual tax such as rates. Of the more modern studies the Allen (1966) and Layfield Committees (1976) both studied the incidence of rates at the household level using the Family Expenditure Survey and specially commissioned household surveys. A specially commissioned survey allowed the Allen Committee to assess the impact the 1963 revaluation had had upon household bills. The Allen Committee produced a 21 variable regression equation to 'explain' the variation in rates burden using variables such as different types of property, household composition and geographical location. The Allen Report in particular shows if the aim of a micro-level model is to analyse a single element within the tax and benefit system rather than its wider implications, and with access to appropriate primary data, such models can produce very detailed analyses on which policy decisions can be based.

4.2.6 **Problems of Tax / Benefit modelling** : Despite the increasing sophistication of

tax / benefit models there remain a number of unresolved general conceptual and practical difficulties which can be extended to more informal models. One of the fundamental failings, particularly in modelling local taxation, is the failure to broaden the spatial scope of tax / benefit models beyond the very rudimentary geographical element usually encompassed. The question posed by tax / benefit models, particularly those of local tax incidence, should not be simply "Who gains, who loses ?", but rather "Who gains, who loses and where ?". Although public finance has long been a discipline within economics, geographical interest in public finance has been largely confined to a few authors such as Pinch (1985) and Bennett (1980) though a specific welfarist approach was proposed by Smith's (1977) 'Human Geography : A Welfare Approach' which extended Lasswell's (1958) aphorism that politics is about 'who gets what, when and how' to 'who gets what and *where*'. Recognition that the implications of central government policy are innately geographically structured has rarely led to the adequate inclusion of the spatial dimension in tax / benefit modelling. Previous chapters have suggested that the impact of the local finance system is similarly geographically distributed. One important reason for the failure of tax / benefit models to deal satisfactorily with spatial distribution is the paucity of spatially referenced data which are available to researchers, the perennial problem of all geographically oriented research. The issue of data will be given greater consideration in the next section.

The use of hypothetical households is both a practical and a conceptual problem which is common to the more generalised tax / benefit models under discussion here and to the partial models dealt with in the following section. The Chancellor's annual budget speech is followed by newspaper analyses of the effects of the budget on putative 'average' households with different incomes. For academic and government research this form of analysis can be unsatisfactory because of the degree to which the term 'average' is misleading. For example, the ubiquitous 'average' household comprising an employed husband, a non-working wife with two children, a supposedly common household, actually represents less than 7% of households in Britain (Family Expenditure Survey, 1981, Table 1). If there are few 'average' circumstances when considering only one variable such as household composition, there are even fewer when housing characteristics, employment status or income are considered. Put simply, the diversity of circumstances faced by ostensibly similar households becomes vast. What makes this diversity doubly important for generalised tax / benefit models is the complex pattern of interaction between the tax, national insurance and social security benefit systems. Any one of the variables mentioned can have an influence upon the level of taxation or benefit eligibility of a household and can thus have significant subsequent implications for household income. Even the resources of a government department do not always allow the difficulties of using hypothetical households to be avoided. The eight hypothetical households used in the Department of Health and Social Security tax / benefit model were

found to represent only 4% of the households recorded in the Family Expenditure Survey (Atkinson and Sutherland, 1983) ! Hypothetical households are much less of a conceptual problem with partial tax / benefit models since the complex interactions of the tax and benefit system are much less their concern than the 'internal' analysis of the tax or benefit under consideration.

The difficulties of hypothetical households can largely be avoided by the use of sample data which better reflects the diversity of the population affected by fiscal changes. King (1988) points out that using hypothetical households with generalised tax / benefit models prejudges the characteristics of a 'representative' household. The degree to which a household is 'representative' depends upon the reform under consideration. Rather than mapping from pre-established characteristics to gains or losses (e.g. single person households lose), King suggests that a preferable approach for generalised models would be to examine the pattern of loss and gain in order to establish the relevant characteristics which produce that loss or gain (e.g. single and multiple adult households may all gain from a policy change but their reason for gaining may be due to other household characteristics).

There remain two further difficult and unresolved practical and conceptual problems for tax / benefit modelling. The first is the problem of accounting for possible behavioural responses to changes in the tax / benefit system; the second being, the measurement of equivalent income. The adjustment of behaviour in response to fiscal changes is vital to both Monetarist macro-economics (e.g. the incentive effects of reducing direct taxation) as well as many government micro-economic policies - smoking is discouraged by high taxes on cigarettes, home ownership is encouraged through income tax relief on mortgage interest payments.[3] In terms of local taxation, the underlying accountability rationale of the Community Charge implies a set of behavioural assumptions which links local voting, spending and taxation decisions. It is clear then that the implications of any reform of the fiscal system are often designed to extend beyond simple cash gains or losses to secondary behavioural responses such as entering or leaving the labour market or altered expenditure decisions. Behavioural response to policy changes is yet to be fully developed in the context of modelling. This has been partly due to the relative youth of the field but also because of the methodological difficulties implicit in estimating behavioural responses. Behavioural response estimation has proved extremely difficult not only because much depends upon the initial specification of the sample relationships but also because of the necessity to assume consistency of behavioural response across different income and social groups, in different places and time periods. Furthermore the legitimacy of extrapolating

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[3] The discussion of incentives spilled over into the tax / benefit modelling literature as attempts were made to model behavioural responses to changes in the fiscal system, see Blundell et al., 1984. For more recent developments in tax / benefit modelling, see Hancock and Sutherland, 1992

from the estimated responses of a sample to the whole, inevitably more behaviourally diverse, population is questionable. Behavioural response presents tax / benefit models with a very significant conceptual and methodological challenge which, if met, will allow such models to make a far greater contribution to the formulation and implementation of government policies.

The second conceptual and practical difficulty for tax / benefit modelling lies in equating cash gains or losses to welfare gains or losses. Put simply, cash and welfare (or utility) gain are not necessarily directly comparable - an equal cash gain between two households, one wealthy, one poor, will not result in an identical welfare gain. By the same token, nor would any behavioural response necessarily be the same - showing how modelling behavioural response and equivalent incomes are closely linked. In addition, levels of household welfare are also influenced by the prices of goods which households purchase, as well as by household consumption preferences. Any tax changes will result in changes to any one or combination of these influences. Various approaches to formalise these issues have been suggested, the commonest being the calculation of an 'equivalent income' function to adjust for the factors noted above.[4] Though modelling welfare as well as cash changes under different policies is a relatively rare exercise, the potential significance of the greater sophistication of this type of modelling is demonstrated by King (1983). His work shows that modelling welfare changes produces a very different view of the likely responses to, and results of, a policy change. With a simple estimated cash gain, 56% of the Family Expenditure Survey sample households would have gained from the removal of government housing subsidies and a compensating reduction in taxes. When the scenario was modelled to include changes in welfare rather than simple cash changes, as well as behavioural responses to the policy 83% of sample households would have gained.

The development of tax / benefit modelling remains in relative infancy and the use of such models in government departments as an aid to policy formulation is still at a fairly rudimentary stage. The methodological difficulties associated with behavioural response and equivalent income functions have limited such models' applications in policy research. These aspects remain as an agenda for modelling developments in the future rather than a description of current practice, although tax / benefit models are already in use in policy formulation in Britain.

4.2.7 **Data sources and tax / benefit modelling** : Data are the very basic component of empirical research, yet because of the heavy data demands made by tax / benefit models, the ability to research any given policy area in this way is determined to a very great extent by the data which are available. Because the financial and time costs of conducting

[4] For a discussion of equivalent income functions, see Coulter et al. 1992; Hancock and Sutherland, 1993.

fieldwork to produce appropriate primary data are usually prohibitively high, secondary data from published sources are the only feasible option for most tax / benefit models. This has significant repercussions not only for the subject matter of research but also for the type of research which is possible. If data are not available to support a certain type of analysis then that analysis becomes impossible. More commonly, there is a trade-off made between the level of detail a dataset possesses which allows the pursuit of a particular research avenue but which limits the degree of generality that dataset affords.

This problem is particularly acute in terms of geographically-oriented distributional research. Because secondary data suitable for tax / benefit modelling are infrequently collected on a geographical basis, the degree of spatial disaggregation which is available is often very poor. For generalised tax / benefit models the usual pragmatic solution is to disregard detailed geographical analysis since the determinants of model variables such as eligibility for benefits or rates of National Insurance contributions do not vary geographically, thus a spatial dimension does not represent a key analytical priority. For geographical researchers the alternative approach is to find sources of data with better geographical coverage whilst accepting that the source's level of detail in other respects will be less satisfactory than other, non-spatially referenced, sources of data.

Similarly, data requirements form part of the dividing line between 'general' and 'partial' tax / benefit modelling. As noted, generalised modelling of the entire tax / benefit system requires data which interrelate many different elements - household composition, household income - in order to facilitate flexibility in modelling the distributional impacts of different policies or policy changes. The trade-off for this flexibility in distributional analysis is a relatively limited ability to produce results in other analytical dimensions such as spatial disaggregations for different income groups. This trade-off is made at the basic level of the data used. By contrast, partial models of the tax / benefit system are far less concerned with the interactions between the different components of the tax and benefit system but are rather more concerned with detailed attention to the distributional implications of a tax or benefit change alone. As a result, partial models require data which are directly relevant to the details of the particular element of the tax and benefit system under investigation rather than broader data which are relevant all elements of the tax / benefit system. This point will be amplified in the discussion of previous distributional analyses of the Council Tax using formal tax / benefit models.

The following section highlights the Family Expenditure Survey to illustrate the data requirements of distributional tax / benefit modelling and to show how data can be instrumental in determining the type and extent of analysis which can be undertaken.

Family Expenditure Survey as Tax / Benefit Model data source : Of all publicly

available data sources, the Family Expenditure Survey is most commonly used for tax / benefit models. The Survey's principal advantage is that it allows the interrelationships between a great number of different variables to be made at the household level rather than imputed from more generalised data. Whilst other sources offer data on e.g. income or household composition, such sources rarely record income and household composition simultaneously. The Family Expenditure Survey's relatively small sample size (roughly 9,000 individuals) allows a far more detailed and wide-ranging set of questions to be put to its respondents. By contrast, the much larger sampled surveys such as the General Household Survey, the New Earnings Survey and Survey of Personal Incomes are far less flexible in terms of their breadth of focus but are far more comprehensive. These alternative sources of data facilitate comparisons with the Family Expenditure Survey which allow the Survey's reliability to be assessed and errors compensated for.

The Family Expenditure Survey, as its name suggests, provides detailed information on family expenditure. The Survey is used as the basis for formal tax / benefit models such as TAXMOD and TAXBEN2, as well as being used by the Allen (1965) and Layfield (1976) Committees in their analyses of the distributional impact of rates. The Survey is an continuous annual survey carried out on behalf of the Department of Employment by the Office of Population, Censuses and Surveys since 1957. The survey uses a sample of seven thousand tax units drawn at random from across the United Kingdom's population.[5] Tax units usually coincide with households though in roughly a quarter of the sample households comprise more than one tax unit. These households are identifiable so individual tax units can be amalgamated back into households. The original purpose of the survey was to collect information on household expenditure to calculate weightings for the Retail Price Index. The survey has since expanded into a multi-purpose survey whose information is used both by government departments and by non-governmental researchers alike.

The Survey questions individual respondents not only about their expenditure and income but also about their household circumstances. As a result the survey relates household characteristics such as tenure type and type of accommodation to detailed individual characteristics such as occupation, age, sex, marital status and income. The detailed income data is disaggregated into different sources such as earned, unearned and capital income. The survey provides information on which individual and aggregate household tax and national insurance liabilities, as well as eligibility for social security benefits can be calculated. The most significant omission from these variables in terms of modelling the Council Tax are local authority location and the capital value of domestic properties, though as later sections will show, this difficulty has been circumvented to some extent.

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5 See Kelmsley, Redpath and Holmes (1980) for a complete description of the survey's sampling frame and other procedures.

As with all sources of data there are difficulties with its use. The Survey is a voluntary survey so, unlike the Census, there is a response rate well below 100%. The actual response rate is around 70%, an aspect of the survey which has been investigated in some detail (Atkinson and Micklewright, 1983; Kemsley, Redpath et al., 1980). However, a comparison between the New Earnings Survey and the Family Expenditure Survey found that the Family Expenditure Survey's income data closely reflected those of the larger sampled New Earnings Survey, the difference in between the two surveys on median earnings being less than 2% (Atkinson, Micklewright and Stern, 1988). In addition to the problems of non-response there are responses to questions on sensitive matters which have to be treated with particular caution, such as the answers to the questions on expenditure on alcohol which are absurdly low. Caution is also needed in relation to self-employed and investment income both of which have been found to be substantially under-reported. A solution has been developed through the assignment of weights to different sources of income (Atkinson, 1983). A second response problem is the lack of detail with regard to mortgage repayments. Though the survey asks its respondents for separate figures for repayment of the loan principal and for the interest payment the question is not always answered, very often because the separation is not made clear to the mortgagees by the Building Society or bank. This makes the calculation of tax relief on mortgage interest (available only on interest, not principal payments) extremely difficult, to some extent the problem can be resolved through various procedures which can estimate or impute the separation though these are not altogether satisfactory.[6]

A problem common to all sample datasets is that of grossing up. Those using data from the Survey need to produce figures which extrapolate from the Family Expenditure Survey results to figures which represent the whole country. The figures for alcohol expenditure noted previously illustrate the point, if the Survey figures were grossed up there would be a huge shortfall in alcohol expenditure in comparison to figures for alcohol sales. Similarly, when the number of children represented in the 1981 survey are grossed up a figure of 16.7 million children is produced, a figure which is more than 25% above the Census figure for that year (Atkinson, Gomulka and Sutherland, 1988). The exaggeration of children's numbers is due to the over-representation of households with children within the Survey because the response rate from this type of household is higher than others. One possible solution is to weight the figures found in the Family Expenditure Survey according to the degree of aberration from the norm, calculated from other more accurate sources of information such as the Census. This applies not only to the numbers of children but also to, for example income data which can be assessed through comparisons with sources such as the Inland Revenue's Survey of Personal Incomes or the Department

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6 The IFS model uses information derived from the Building Societies' Association 5% Survey of Mortgages. For the STICERD alternative procedure, See Atkinson, Gomulka and Smith (1988).

of Employment's New Earnings Survey. Using weighting techniques the results stemming from tax models using Family Expenditure Survey data can be grossed up to give a much more accurate representation of the whole population or any group within it.

Although the Family Expenditure Survey has been extensively used in tax / benefit modelling, the preceding discussion has shown that in terms of modelling local taxes, and the Council Tax in particular, the Survey has a number of important drawbacks. These drawbacks relate principally to the absence of data relating to capital value, its relatively small sample size which prohibits simultaneous extension of the models' distributional analyses into other analytical dimensions such household type and geographical location.

4.3 Analyses of the Council Tax

This section considers the methodological approaches taken and the data sources used by previous empirical analyses of the distributional impact of the Council Tax. This provides a basis for comparison with the methodological approach taken by the empirical analyses presented in this thesis. The Council Tax's complex hybrid nature with characteristics of both personal and property taxes implies that empirical research into the tax's distribution faces the combined difficulties of analysing both a personal and property tax. As a result, the availability of data is likely to be a determinant of the type and extent of empirical research which is possible.

4.3.1 **Department of Environment analysis** : The Department of Environment's 'The New Council Tax : Illustrative Bills for England' (DoE, 1991b) published with the Council Tax's Consultation Paper 'A New Tax for Local Government' (DoE, 1991a) exemplifies a broad model of the distributional impact of the proposed Council Tax. The model provides estimated bills for single adult and two adult households in each capital value band in each local authority in England in comparison with the appropriate household Community Charge bill. The estimates of the distribution of properties in each capital value band in each local authority were provided by the Inland Revenue's Valuation Office. The basis on which these estimates were made was not made clear though it has been suggested that the estimates were made partly on the basis of a preparatory valuation exercise and partly using information derived from Stamp Duty returns. Following the full valuation survey it was found that the Department's estimates were overvaluations, although no explicit figures on the degree of overvaluation were released. This overvaluation has, potentially, had a significant effect at the basic level of the Council Tax's design, since these estimates were used as the basis for the intervals between Council Tax bands. This overvaluation has also been reflected in the shift from the use of Band D as an analogue for 'headline' Community Charge rates to the use of Band C figures by government ministers as better representing the national average capital value figure. The numbers of single adult households in each local authority area were interpolated from

regional Family Expenditure Survey data and so are subject to some degree of error.

The Department's distributional model makes a number of fairly restrictive assumptions, the most important being that the relationship between local authority spending and Standard Spending Assessment remains as that under Community Charge though Council Tax's collection costs are assumed to be 40% of those of the Community Charge. The illustrative bills are also based on the assumption that the Council Tax has been fully implemented, in other words the Council Tax Transitional Relief Scheme is assumed to have been abolished. As a distributional model the Department's publication is unsatisfactory, despite its banded estimates of bills for properties in every local authority. As Hills and Sutherland (1991) note, it is not possible to establish from the publication the number of households which would gain or lose from the new tax or the degree to which the Council Tax would be more or less progressive than the Community Charge. The reasons for this opacity are that the tables do not differentiate household by income or show the composition of households by size for each local authority, nor is the assumed relationship between household size and property capital values made explicit. The tables also fail to show the effect of the receipt of Council Tax Benefit would have had on the tax's progressiveness, since no information the income levels of gainers and losers is given.

By comparison with the Community Charge's Green Paper 'Paying for Local Government' the Council Tax's preparatory publications provide very little information about the distributional impact of the new tax. The distributional information provided is only in terms of changes in headline rates rather than in terms of impacts on household bills. Although the information is detailed in its spatial coverage the distributional analyses are very unsatisfactory.

4.3.2 **Hills and Sutherland analysis** : The Hills and Sutherland (1991a) paper was initially published as a discussion paper in the Welfare State Programme at the London School of Economics in response to the Council Tax's Consultation Paper 'A New Tax for Local Government' (DoE, 1991a) but was subsequently published in an edited version in 'Fiscal Studies' (Hills and Sutherland, 1991b). As the authors note :

> '...what is needed is a simulation model of the tax and benefit system which links data on household composition and income to capital values of property occupied and - ideally - links both of these to local authority areas.'
>
> Hills and Sutherland, 1991a, p.23.

To this end, the authors modelled a number of versions of the Council Tax using a generalised simulation tax / benefit model developed at the LSE called TAXMOD. TAXMOD is outlined below as an example of how a formal tax / benefit model operates, the difficulties imposed by the use of the Family Expenditure Survey as its data source and

the drawbacks associated with using a formal tax / benefit model in the distributional analysis of local taxes.

TAXMOD is a tax / benefit model which has been developed over a number of years at the London School of Economics' Suntory Toyota International Centre for Economics and Related Disciplines (STICERD), initially under the auspices of the ESRC's Programme on Taxation, Incentives and the Distribution of Income.[7] The model has been disseminated to a range of other users, including the Department of Social Security, the Inland Revenue, other universities, the Low Pay Unit and the Child Poverty Action Group. Work using the model beyond local taxation issues has been extensively published.[8] The model is designed to analyse the existing personal tax and benefit systems for the whole of the population or a sub-group of it by modelling changes on the data derived from the Family Expenditure Survey. The changes which can be specified within the model range from relatively minor alterations such as an increased rate of take up of social security benefits through to more radical policy changes such as the introduction of a negative income tax or an integrated social security and taxation system; in addition it is possible to specify a combination of different policy changes. The modelling results can produce disaggregations of the Family Expenditure Survey sample into specific groups, allowing the analysis to focus on, for example, single parents or pensioners. Using weightings for different types of households, the model makes it possible to gross up the findings based upon the Family Expenditure Survey to give an estimation of the likely effects of the policy change on the whole population and its cost to the exchequer. The model can also produce detailed results on, for example, the average loss or gain for different income brackets or marginal tax rates for heads of households with and without the policy change.

TAXMOD gives the user the option of defining income in several ways, either net income or net resources (before and after housing costs), and either total or equivalent income, equivalent income being income adjusted for different recipients. The calculation of equivalent income is relatively simple since total income is adjusted by an equivalence scale or multiplier such that a single adult's income is multiplied by 1, 1.6 for a couple plus 0.4 for each child. Results for changes in income can be produced for both different sub-groups of and as a distribution of the numbers of household in each decile percentage change. Beyond these standard figures are a further set of figures which include detailed analyses of the characteristics of those who would gain and lose most in a change of policy, both King (1988) and Atkinson and Sutherland (1988) emphasise this approach to the analysis and development of public policy using general tax / benefit models.

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[7] For full details, see Atkinson and Sutherland, 1988.

[8] For examples of TAXMOD in use, see Atkinson and Sutherland, 1983; Atkinson, King and Sutherland 1983; Wooley and LeGrand, 1990; Hills and Sutherland, 1991a.

TAXMOD also calculates changes in marginal tax rates, the amount lost or gained in terms of increased National Insurance Contributions, income tax and social security benefits from an increase of £1 in earnings. The distribution of losers and gainers can be analysed in terms of their characteristics, thus if a reduction in mortgage interest tax relief is specified as a policy change the characteristics of those at the top end of the distribution of losers will obviously be house-owners as opposed to tenants.

As with all such models there are some caveats which must be borne in mind when using TAXMOD. Some of these, such as non-response errors and under-reporting relate to the use of the data drawn from the Family Expenditure Survey have already been mentioned. Probably the most important aspect is the difference between a household and a tax unit. Though in most cases the household can be equated with a tax unit for roughly 25% of households this is not true. Necessarily some assumptions have to be made with regard to the allocation of costs to members of a household which would not necessarily hold true for all such cases. The release of the annual Family Expenditure data is lagged by up to two years which forces adjustment to be made to income and cost figures. For income data, the New Earnings Survey is used in order to adjust according to class of earnings. Inevitably this implies that adjustments can only be approximate and do not reflect the diversity of experience which will occur. Adjustments for major classes of expenditure are made using data from the Retail Price Index. A similar problem relating to the lagged release of data is that of population structure, adjustment has to made to allow for changes to for example the numbers of children receiving Child Benefit or the numbers of pensioners receiving the higher pension rate when aged over eighty years.

Unlike other models such as the TRAP model (King and Ramsay, 1983), TAXMOD makes no attempt to model behavioural changes which could lead to changes to gross incomes of families; TAXMOD is purely a simple arithmetical model. Receipt of income from benefits and the taxation is actually calculated by the model, it does not use the reported figures given in the Family Expenditure Survey, only in this way can the actual figures resulting from one policy in comparison to another be calculated. This form of calculation forces a number of assumptions to be made - that all income is declared, income is received at the same rate throughout the year and benefit eligibility is determined on earnings in the last pay period. The actual take-up of benefits is subject to fewer assumptions, research has shown that certain benefits are taken up less fully than others and certain groups of the population are more likely than others to apply and receive benefits, take-up probabilities are built into the model to account for this. Not all the complexities of the tax system are fully integrated into TAXMOD, for example indirect taxes such as VAT are not accounted for nor are some of the more minor allowances for personal income tax and supplementary benefit.

TAXMOD and the Council Tax : The actual results of the analyses produced by Hills and Sutherland are less important than their approach to the analysis of the Council Tax. The first difficulty confronting the authors, as mentioned earlier, is the absence of capital values of domestic property in the Family Expenditure Survey on which TAXMOD is based. This problem was circumvented by estimating appropriate capital values for each household within the Family Expenditure Survey (Hills, 1991). The procedure uses the Department of Environment's 1988 5% Survey of Building Societies' Mortgages to develop a price index for properties which correspond to the characteristics of those properties recorded in the Family Expenditure Survey. These prices were then indexed to the last quarter of 1990. This implied a mean capital value in England of £75,400 which the authors suspected was an overestimate for council properties. In compensation, the authors made (on their own admission) an arbitrary assumption that council properties would have values 80% of their private counterparts. This gave an national (England) average value of £73,000 in comparison with the Department of Environment's estimate of £80,000. The authors used this figure on which to base their modelled bands since, as the previous chapter noted, the bands are based upon proportions of national average capital values. Although the capital values produced by this method allowed the analysis to proceed, they are clearly no substitute for the actual capital values of the properties of the households recorded in the Family Expenditure Survey. The Family Expenditure Survey properties were valued by the Valuation Office for the Department of Environment prior to the introduction of the Council Tax though these details remain unreleased.

A second, but far more significant, data problem is the absence of local authority identifiers for each household in the Family Expenditure Survey. In order to protect confidentiality these identifiers are excluded from the dataset released for public use. As a result all of the analyses undertaken by the authors are based upon a standard rate of tax across the entire country, in other words no geographical component is included in the Hills and Sutherland analysis. This is a significant failing since the previous chapter showed that the use of capital value as a tax base for the Council Tax is likely to produce an innately geographical distribution of the local tax burden. This failing is equally noticeable in terms of analysing the implications of moving from the Community Charge, once again there can be no analysis which deals with local authority level variations in tax levels. Instead the authors concentrate upon the distributional implications for a number of alternative Council Tax designs, including taxes with one, seven bands and twelve bands, a more progressive seven band tax and a tax based directly on property values.

4.3.3 **Giles and Ridge analysis** : Giles and Ridge's analysis was published in April 1993 using the legislative details (as opposed to the Consultation Paper details) of the Council Tax, thus including the new Band H for properties of £320,000 and over with a tax rate of double the Band D tax bill. As with that of Hills and Sutherland, the analysis is

largely based on a generalised model of the tax / benefit system called TAXBEN2. TAXBEN2 was developed at the Institute of Fiscal Studies by Paul Johnson, Graham Stark and Steven Webb.[9] Though both TAXMOD and TAXBEN2 use the same data source and have been designed to produce analyses of changes to the fiscal system in aggregate and at individual levels, the two models do differ both in aspects of methodological approach as well as in technical respects such as grossing up techniques, income equivalence and the treatment of households and tax units.

The most significant difference between TAXMOD and TAXBEN2 is in their approach to pre-established household categories. Unlike TAXMOD which fights shy of making household typologies, TAXBEN2 does so from the outset (though options allow disaggregations into individuals and individual households). TAXBEN2 produces five categories of family types on whom reforms might be expected to have significant impacts. These are single-parent families, pensioners, unemployed, employed and others (mainly students and those not looking for work). The use of a family typology stands in marked contrast to the STICERD work which has considered this form of categorisation as reductionist since the huge variety of household or family circumstances can be masked by such categories, potentially leading to inappropriate conclusions being drawn. It is noticeable that the option to disaggregate losers and gainers according to characteristic is not available with TAXBEN. The progression from analysis of patterns of gain and loss by characteristic of households rather than by household typology is the preferred, academic approach.

TAXBEN2 and Council Tax : As with the Hills and Sutherland work, the initial problem facing any potential distributional analysis was the absence of capital values from the Family Expenditure Survey sample. The solution to the capital value problem, though unreferenced, appears to be identical to that of Hills and Sutherland in that an estimate of each property's capital value was made using the characteristics recorded within the Family Expenditure Survey. An account of how these estimates were made is not given. The estimates were made so as to match the distribution across the capital valuation bands of properties within the sample with the distribution across England. In the absence of any further details on the methodology used, it seems reasonable to assume that the reliability of the capital value estimates is similar to that of Hills and Sutherland.

These analyses differ in terms of their assignment of 'headline' or Band D Council Tax rates. Giles and Ridge were provided with 59 different Community Charges by the Central Statistical Office (CSO) which reflected the area of sample households and the actual Charges paid in 1991/2. These were updated to 1992/3 to provide a comparison

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[9] For more detailed reviews of TAXBEN2 and its predecessors see Davis and Dilnot (1985), Davis, Dilnot, Stark and Webb (1987) and Johnson, Stark and Webb (1990).

with the Council Tax bills of the following year. It is unclear how these representative Community Charges were created or applied to the Family Expenditure Survey sample. Whilst Hills and Sutherland used a single Band D rate to produce what was essentially a 'national' analysis, Giles and Ridge describe their method of estimating the appropriate Band D rates thus:

> 'We carried out a similar banding exercise to create a set of 59 Council Tax Band D rates that reflected the Council Tax rates set in the standard region of the household and the broad level of the Poll Tax supplied by the CSO.'
>
> Giles and Ridge, 1993, p.20.

The banding exercise described is presumably similar to that carried out by the CSO. The object of the exercise is clearly to apply a representative sample of 'headline' Community Charge and Council Tax Band D rates to the Survey sample although the method on which this procedure is based is far from clear.

Giles and Ridge give a variety of analyses of the losers and gainers from the Council Tax in terms Council Tax band, types of household and simple equivalent income deciles at the national level. Although Giles and Ridge present a number broad analyses of the Council Tax in terms of regional disaggregations, they are not able to carry out this form of analysis in distributional terms. It is clear that the Family Expenditure Survey is unable to support distributional analyses below the national level. As the previous chapters have shown, this inability is a significant handicap in the distributional analysis of a local tax whose tax base is geographically distributed.

4.3.4 **Analyses of the Council Tax - Summary** : The preceding discussion of previous methodological approaches has shown that there have been few studies which have addressed the full range of distributional issues raised by the Council Tax. The discussion has suggested that one of reasons for this is the Council Tax's combination of characteristics which present significant problems for distributional analyses. The most obvious problem is that modelling a hybrid local personal and property tax makes severe demands in terms of data. The linkage of capital value of domestic property with the more usual variables dealt with in distributional models has proved difficult to achieve. Models based on the Family Expenditure Survey have only been able to provide distributional analyses at the national (England) level, a level which has been shown in previous chapters to be likely to conceal as much as income group and household type analyses are likely to reveal. As the previous quotation suggested, Hills and Sutherland (1991a) recognise that the study of a local tax requires the ability to model household tax burdens below the national level. The following section outlines the approach taken by the analyses presented in this thesis which uses a new source of data to overcome some of the problems experienced by previous analyses discussed here.

4.4 Methodological Approach

Previous chapters have shown that there are a number of factors which will significantly influence the distribution of the Council Tax burden at the household level. These influences include the geographical distribution of capital value, the composition of households, historical tax rates and the operation of the Revenue Support Grant system. To analyse the influence of these factors this thesis uses a methodological approach which constructs a simple, arithmetic model of the Council Tax (and in less detail, the Community Charge) on a set of household level data. This model calculates Council Tax bills for each of the households included in the dataset according to the local authority in which they are resident. These bills can then be analysed in terms of different types of households, with different levels of income, in different parts of England. This approach allows not only distribution analysis to be undertaken but also illustration of a number of the Council Tax's more detailed characteristics highlighted in the previous chapter such the resources effect and Council Tax as 'household' tax. The technique fulfills Hills and Sutherland's prescription that :

> '...what is needed is a simulation model of the tax and benefit system which links data on household composition and income to capital values of property occupied and - ideally - links both of these to local authority areas.'
>
> Hills and Sutherland, 1991a, p.23.

Although the thesis does not construct a 'simulation model' in the formal sense of TAXMOD or TAXBEN2, the thesis's analyses do simulate the impact the Council Tax in much greater depth than has been previously allowed by other models. As has been seen throughout this chapter, the trade-off for this depth of analytical ability is a correspondingly limited breadth of analysis across the other elements of the tax / benefit system. The analyses therefore do not deal with the interactions of the Council Tax with other elements of the tax / benefit system.

To facilitate this form of detailed analysis, the thesis's analyses are based on data provided by the Nationwide Anglia Building Society, Britain's second largest Building Society. These data have not been used previously in the study of the distribution of local taxes. The data comprise the details of all 75,000 mortgages granted by the Society in England between 1988 and 1990. The most important variables recorded for each household include household composition, individual and aggregate incomes, local authority location and, vitally, the capital value of each household's property. The data allow links between household characteristics, household income and capital value to be established at the local authority level. Despite these positive characteristics subsequent sections describe a number of limitations associated with the use of these data.

The construction of this type of model of the Council Tax based on the Nationwide Anglia

Building Society data allows the distributional impact of the tax to be assessed in a number of innovative ways. The most obvious advantage of this source of data is its linkage of capital value to other details of actual households, thus achieving a linkage which the Family Expenditure Survey is unable to provide. The very large sample size also facilitates simultaneous analysis along a number of dimensions. The modelled experience of the households of the Nationwide Anglia Building Society can be aggregated along several different axes - in terms of household composition (the number of taxable adults), in terms of income group and in terms of regional location - the dimensions along which the previous chapters have shown that the distribution of the Council Tax is likely to be made. This approach allows the disparate influences upon the Council Tax's distribution to be investigated individually or in tandem with one another. For example it allows analysis of the distribution of Council Tax bills across single adult households on the same level of income but in different parts of the country. In other words the regionally differentiated influences on the distribution of the Council Tax noted earlier can be fully investigated using spatially referenced sample data which interrelate all the appropriate variables such household composition, income, and local authority 'headline' rates for Community Charge and Council Tax.

4.5 Nationwide Anglia Building Society Data

This section first discusses the Nationwide Anglia Building Society data and then describes the adjustments and indexation procedures which were necessary in order to facilitate the model's construction.

4.5.1 **Data summary** : The Nationwide Anglia Building Society data were obtained through Professor Tony Champion of the University of Newcastle-Upon-Tyne although help on the detailed methodological queries regarding the data was sought from the Nationwide Anglia's own Research and Planning department. The data derive from the records of every mortgage the Society granted throughout the country between 1988 and 1990, although only the data for households in England were used. Data were available for mortgages granted after 1990 but a number of crucial variables, in particular those concerning household composition, were no longer recorded. The data set includes a range of variables which give details not only of the purchased property (its type, size and location) and its value (valuer's estimate, sale price, mortgage granted) but also a variety of details about the mortgagee's household. The mortgagee details relate firstly to the financial circumstances of the household (first, second and total household income, type of occupation); and secondly to broader characteristics of the household such as the age of the mortgagees, the number and ages of children.[10] These details allow arithmetic calculation of liability for both Community Charge and Council Tax for each household included

[10] For a complete list of variables included in the dataset, see Appendix 1.

within the dataset. As with any dataset, there are aspects which present difficulties and limitations which require some adjustment or manipulation. The sections below give an account of these difficulties and how they were addressed.

4.5.2 **Nationwide Anglia Building Society data caveats** : One of the crucial issues in distributional analyses is the degree to which the data on which analyses are based are representative of the whole population. It is important to acknowledge that despite its very broad distribution and large size (over 74,000 households) the Nationwide Anglia data remain only partially representative of the whole population. The data are differentiated from the wider population in terms of tenure status, range of income, age group, regional and rural / urban distribution and the range of properties. The following section discusses these issues and assesses their implications for the thesis's analyses.

Tenure : The most obvious difficulty associated with the Nationwide Anglia Building Society data is its incomplete tenure profile. Because the dataset comprises the details of mortgage holders, necessarily the data relate only to homeowners. Owner-occupiers comprise broadly 70% of all households, the remainder predominately rent privately or from local authorities or housing associations (OPCS, 1991). But the recording of exclusively homeowners inevitably leads to some limitations on the degree to which the Nationwide Anglia Building Society data can be said to be representative of the entire population. In particular, the absence of households from the rented sector is likely to lead to some degree of underrepresentation of lower income households, as well as young and mobile sections of the population.

The implications in terms of capital value are difficult to assess. Since local authority properties are likely to be of lower value than those on the free market it seems possible that the average capital values of the data are higher than they should be as a representation of the entire property population. Whilst Hills and Sutherland (1991a) arbitrarily allocated 80% of market value to the properties within the Family Expenditure Survey known to be owned by local authorities, this is obviously not possible in a dataset which comprises entirely owner-occupied properties. This difficulty also applies to property which is privately rented, although it seems likely that at least some of the properties included within the sample will be owned by landlords for private rental. It is possible to regard actual tenure as relatively unimportant since the capital valuation of private rented property should be equal to that of owner occupied properties, in other words, the theoretical liability for Council Tax is unaffected by tenure. The actual allocation of payment of Council Tax between landlord and tenant is of course a more complex issue which need not be dealt with here. However, in absence of any obvious means of adjusting for the absence of local authority rented property, no action is possible other than to note the potential influence of marginally higher average capital values, although the actual values of

individual properties within the dataset will still be accurate.

Capital value : Since the Council Tax is at least partially based on capital value one of the most important requirements of the data source is that it accurately reflects the distribution of capital value across Council Tax bands both nationally and regionally. This also allows the impact of the restriction of the data to mortgaged properties to be established. The National Audit Office's report on the Council Tax Valuation Survey (National Audit Office, 1994) checked the accuracy of the valuation survey through a comparison with a Building Society's (not named) mortgage data and found that 91% of valuations were within 10% of the purchase price, 97% were within one band of that indicated by the purchase price. Since unless noted that the details related to a non-market sale, the sale price indexed to April 1991was used to allocate the property to a Council Tax band, the Nationwide Anglia data are likely to be extremely accurate in relation to Council Tax banding.

This accuracy can be checked by comparing the distribution of the Nationwide Anglia data with other sources of similar information. There are two sources of data with which it is possible to compare the Nationwide Anglia data in these terms - the Department of Environment's preliminary estimates made in 1991 (DoE, 1991b) and those based on actual local authority returns from CIPFA. The CIPFA figures are therefore the most accurate figures. Table 4.1 gives a national level comparison of these three sources of data. It should be noted that the DoE estimates do not give a figure for Band H since at this stage of the tax's development Band H had not been envisioned. There is a good degree of correlation between the sources although there are small number of anomalies. It is apparent that, as the National Audit Office's report suggested, the original Department of Environment estimates overestimated the number of properties in higher bands. The correlation between the CIPFA and Nationwide Anglia sources is much better in this regard with a very close correspondence in the higher bands. The marginally lower number of lower value properties can be attributed to the Nationwide Anglia's inclusion of only mortgaged properties. The CIPFA figures include local authority rented properties which are likely to be of a lower value than mortgaged properties. This leads to the marginal percentage overestimates of Bands C and D in the Nationwide Anglia data since these are likely to be the most commonly mortgaged properties. Nevertheless, the table confirms that at the national (England) level, the Nationwide Anglia data represent a very good reflection of the actual distribution of properties across Council Tax bands.

Unfortunately, the DoE estimates did not include figures for the regional scale. The comparison at this level is therefore confined to the CIPFA and Nationwide Anglia data sources. Tables 4.2 and 4.3 give the CIPFA and Nationwide Anglia regional property distributions across Council Tax bands respectively. Overall there is an excellent and consistent correlation at the regional level between the two distributions, though there are a

Table 4.1 : Distribution of properties across Council Tax bands according to the Department of Environment, CIPFA and Nationwide Anglia Building Society. (%)

%	CIPFA 1995/6 figures	Department of Environment	Nationwide Anglia data
A	25.9	19	19.5
B	19.1	16	20.9
C	21.9	20	25.9
D	14.7	17	16.8
E	9.1	13	10.5
F	4.9	8	4.4
G	2.8	7	2.0
H	0.3	n/a	0.1

Data Sources : Nationwide Anglia Building Society; CIPFA, 1994, Table 4 and Table 5; Department of Environment, 1991b.

Table 4.2 : Regional distribution of Nationwide Anglia data by Council Tax band. (%)

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
N	47.8	21.2	15.9	7.7	4.9	1.7	0.6	0.0
Y&H	43.6	21.8	16.4	9.5	5.9	1.9	0.9	0.0
NW	31.3	21.4	19.6	13.2	8.3	4.0	2.1	0.1
EM	34.8	21.7	20.6	12.5	7.0	2.5	1.0	0.0
WM	26.0	22.3	22.4	14.7	9.7	3.5	1.5	0.0
EA	11.2	20.2	30.4	21.1	11.7	3.9	1.5	0.0
OSE	13.7	26.5	28.3	15.9	9.9	4.0	1.7	0.1
OMA	1.5	18.5	31.3	22.2	14.7	7.8	3.9	0.1
Lond	0.6	14.0	37.7	24.8	14.9	5.8	2.1	0.1
SW	13.3	22.5	27.2	18.6	11.9	4.4	2.0	0.0
Engl	19.5	20.9	25.9	16.8	10.5	4.4	2.0	0.1

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 4.3 : Regional distribution of Local Authority chargeable dwellings by Council Tax band. (%)

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
N	57.4	14.7	14.1	7.1	3.7	1.8	1.1	0.1
Y&H	47.2	19.3	16.3	7.9	4.9	2.6	1.7	0.1
NW	44.7	18.7	17.6	9.0	5.0	2.7	2.0	0.2
EM	39.3	22.7	18.4	9.6	5.3	2.7	1.9	0.2
WM	33.0	25.2	19.4	10.2	6.2	3.5	2.3	0.2
EA	22.5	27.9	23.1	12.9	7.2	3.7	2.4	0.3
SE [1]	7.9	16.3	27.5	20.2	13.2	7.8	6.3	0.9
OL [2]	2.4	10.0	27.2	28.3	17.8	8.0	5.5	0.8
IL [3]	3.6	18.0	26.2	20.5	12.8	7.5	8.3	3.3
SW	16.2	24.5	23.7	15.6	10.3	5.6	3.7	0.4
Engl	25.9	19.1	21.9	14.7	9.1	4.9	3.7	0.6

Data Source : CIPFA, 1994, Table 5.
Calculations : Author

Note 1 : South East, excluding Greater London
Note 2 : Outer London
Note 3 : Inner London

number of minor differences which are evident. As with the national level figures, it is clear that the Nationwide Anglia data underestimate the number of Band A properties across all regions due the exclusion of local authority rented properties. Because of the geography of capital value this underestimation does not appear to be consistent since there are obviously a greater number of Band A and B properties in lower value regions. Thus the degree of underestimation is likely to be of the same magnitude across the regions, although it will be influenced to some extent by the proportion of the housing stock which is held by local authorities.

A similar, though less pronounced, underestimation occurs in the higher value bands. Although there are relatively few properties which fall into Band F to H (fewer than 10% of all properties), these properties are marginally underrepresented in the Nationwide Anglia data. On enquiry, the Society did not believe that their share of the mortgage market for higher value properties was lower than that for lower value properties (Nationwide Anglia Building Society, Personal Communication). However, the Society commented that high street banks had targeted this market segment on their entry into the mortgage market in the late 1980s. This could potentially reduce the share of the higher value mortgage market held by Building Societies generally, although the Nationwide Anglia was unprepared to release commercially sensitive market share figures to evaluate this possibility. However, although there is a degree of underrepresentation because high value properties comprise only a very small proportion of the entire stock, the underrepresentation is likely to have little effect in terms of the overall analysis.

Income : As has been noted, the Nationwide Anglia data does not represent the entire income spectrum in England since it excludes those households with incomes below the level at which mortgage lending is possible. This has a number of implications for the thesis's analyses. The incomplete income spectrum necessitates the analysis of Council Tax bills across cash income groups rather than in terms of deciles of the national income spectrum. Because the Family Expenditure Survey comprises households of all levels of income, analyses based on the survey can be presented in terms of income deciles, albeit only in national terms. One of the implications of this is that the distributional results are not strictly comparable with those presented by other authors. However, the thesis's distributional analyses are not intended to replicate previous studies but rather to compliment them. The focus of the thesis's analyses is not simply on the national level distributional consequences of the Council Tax. The thesis is concerned with the influences which produce a differentiated impact across regions, household types and income groups, differentiated influences which previous analyses have either disregarded or have been unable to consider.

Nevertheless, Nationwide Anglia Building Society data's incomplete income spectrum does

pose a number of analytical difficulties. Importantly, it has been assumed within the thesis that the sample and the analyses based upon it do not include those households with incomes which would qualify them for Council Tax benefit or for other social security benefits based on low income. It seems highly unlikely that the Nationwide Anglia Building Society would be prepared to offer mortgage finance to households reliant upon Income Support. In addition, because of the necessity to index income levels, it has not been possible to deal with households which do not have an earned income, this excludes households which have no form of earned income, e.g. those living entirely on investment income. As a result the sample overwhelmingly comprises working households. This characteristic of the data represents a drawback in its use but there is no simple means of avoiding the difficulties the actual nature of the data presents. Nevertheless, this difficulty has to be recognised as a limitation on the analyses' applicability.

The distribution of income within the dataset presents a methodological difficulty with regard to the relationship between capital value and income. Whilst there is a consistent, albeit rough, correlation between income and the capital value of domestic property, this correlation breaks down at the very lowest levels of income. The reason for this breakdown is the small but very obvious minority of households which occupy and have mortgages on properties very much more valuable than the household's income would suggest as being financially viable. The origin of the data is responsible for this set of unusual households. The Nationwide Anglia Building Society does not make its lending decisions solely upon the employment income criteria. There are a number of other factors which can influence mortgage lending. Some households have relatively small earned incomes but have other, additional sources of income. Thus not all households have mortgages which cover the entire or even majority of the capital value of their property, for example some households will have inherited capital which has been used to reduce their overall mortgage, other households enjoy income derived from sources other than employment. There are two good examples of how this can occur. The first instance is where a mortgagee has a very low earned income but is able to provide a significant proportion of the capital value of a property as a deposit with a mortgage making up a relatively small proportion of the overall value. Such a household may therefore appear to occupy a property of a capital value well beyond the means suggested by the household's income. This is likely to occur with older mortgagees who have sold a previous, larger property but have taken out a smaller mortgage in order to take advantage of tax allowances on mortgage interest. The second scenario where income appears to be very poorly related to capital value is due to separation or divorce. A family-sized property is required but the income on which the mortgage is based is not earned from employment but is often largely derived from maintenance income. In analytical terms, the effect of these outlying or unusual cases upon average household local tax bills becomes most apparent in disaggregations based upon income groups. This set of circumstances affects a group of

fewer than 1,000 households but has the effect of rendering some of the average Council Tax bills (and therefore the absolute and percentage tax changes from the Community Charge) for the £0 - £150 weekly income group on occasions bizarrely unexpected. An extreme case of a single person with an employment income of under £100 living in a Band H property will badly skew the average Council Tax figures for the £0 -£150 income bracket, particularly since the sample size for this income group is likely to be relatively small. The effects of this type of problem are much less noticeable in higher income groups which provide a more consistent relationship between capital value and household income. In analyses in terms of other variables such as household types this problem is also less pronounced. Once again, this represents a limitation on the thesis's analyses.

It is also clear that the Nationwide Anglia sample reflects the geography of earnings in that there is a regional pattern to the distribution of households across the income bands. The proportion of sample households in each income category varies systematically by region, the London region for example has the highest proportion of its households in the £750 - £850 income group whilst the highest for the North West is the £150 - £250. This reflects the geography of earnings in which London and the Outer Metropolitan Area have higher average wage levels than other parts of the country. This is observable through the London weighting attached to nationally scaled salaries and from the Area Cost Adjustment which compensates local authorities in the South East area for their additional costs by inflating their Standard Spending Assessment grant. Since household income rises with the number of earners it might be possible to suggest that some of this variation is attributable to a higher average number of income earners in each household in the London area. However, the proportions of each type of household is extremely consistent across all regions. The only significant deviation in the pattern is the number of single adult households in London. Whilst this might be expected since London tends to be an attractive location for younger single adults, in terms of average household income groups this would tend to drag down the London average income rather than increase it. The variation in numbers in each income group is therefore not attributable to household composition but rather is more attributable to actual variations in income levels on a regional basis.

A difficulty with analysis across income groups lies in the use of household, rather than individual, incomes. Although the distribution of household types is very consistent regionally, the distribution across income groups is less consistent. This is inevitable since there are few single adult households which have an income equivalent to that of a household comprising several adults - there are therefore relatively few single adults in the highest income brackets. This is an important factor in analysing the calculation of tax liability for different income groups because of the Community Charge being a per capita tax and because of the 25% reduction for single adult households granted under Council

Tax. Because of the concentration of single adult households in lower income brackets there will therefore be a tendency to understate the average level of taxation faced by lower income groups when figures are not disaggregated by household type.

Further to this, the distribution of households types across income groups is not consistent on a regional basis. As has been noted previously there is a geography of income which ensures, for example, that the number of households falling into the lowest income categories in the North is proportionally larger than in the South Eastern regions. This influences the average tax levels for these regions. If northern regions have a proportionally greater number of two adult households in lower income brackets compared with southern regions, the influence of single adult households on average bills will be lessened, leading to an increase in both average household Community Charge and Council Tax for these income groups. This potentially masks the effects of regional differences in other variables such as capital value or levels of Community Charge.

Regional distribution : The regional distribution of Nationwide Anglia Building Society sample, in absolute rather than percentage terms, is influenced by a region's population density since the greater the population density the greater the number of mortgages granted each year. It is unsurprising therefore that East Anglia has the lowest number of households recorded in the sample. This is not necessarily problematic but it is important that the regional distribution will allow greater degree of reliability in some regions than in others. Further implications lie at the sub-regional level. Because urban areas have higher population densities these areas will contribute a greater proportion of mortgages than rural areas. In regions with tax rates which are differentiated between rural and urban areas, average bills will potentially be higher. It seems likely that this will be particularly true of regions with a substantial number of metropolitan districts. This in itself is not necessarily a problem for the analyses undertaken using average results, the higher number of mortgages from urban areas reflects the higher number of households facing the tax liabilities of an urban area, nevertheless it is important to recognise that there will be considerable diversity of experience within a regional average. Nowhere more obvious an example can be found than that of London where the regional average Community Charge of £470 masks the difference in experience between households living in Wandsworth with its zero Community Charge and those living in neighbouring Lambeth with a Community Charge of over £500.

Age structure : The structure of the sample in terms of the ages of the households' occupants is also relatively exceptional. Because the data relate to new mortgages there is a relative over-representation of the younger age groups, 65% of the sample's principal earners are aged between 25 and 45. It seems likely that this will influence average income levels. Life cycle earnings tend to peak in late middle age, a period in which relatively few

households are likely to be seeking a new mortgage, only 12.0% of the sample's principal earners are aged between 45 and 65. The implication is that the average level of income is potentially a slight underestimate in comparison with the working population as a whole.

4.5.3 **Nationwide Anglia Building Society data - Summary** : It is clear from the preceding sections that although the Nationwide Anglia Building Society data provide a significant opportunity to analyse the distributional impact of the Council Tax, the data are not without their drawbacks. Unlike the Family Expenditure Survey it is not possible to regard the Nationwide Anglia Building Society data as representative of the entire population. Although the distribution of the sample across Council Tax bands closely reflects the actual distribution, the data fail to be fully representative in terms of income distribution. There is no simple solution by which the data can acquire representativeness, but it is necessary to recognise of the incomplete nature of the income spectrum within the Nationwide Anglia data. The other issues such as analyses based only on owner-occupied properties and on households only with employment incomes are comparatively unimportant. The caveats highlighted here do not undermine the fact that, in comparison with the Family Expenditure Survey, the Nationwide Anglia Building Society dataset is sufficiently large and widely distributed to facilitate original distributional analyses of the Council Tax at the sub-national level. The following sections detail the adjustments which were made upon the data in order to facilitate the construction of the Council Tax model.

4.5.4 **Capital value indexation** : The Nationwide Anglia Building Society's data relate to properties purchased over a period of two years, from the beginning of 1988 to the end of 1990. The initial task having received the data was to allocate an appropriate capital value band for each property within the dataset. The Council Tax valuation survey valued all properties on the basis of their value on 1st April, 1991. Necessarily then, the capital value of each of the properties within the dataset had to be indexed to a value appropriate to that date. Using the Nationwide's own data on price changes for different types of property, of different ages and in different parts of the country between 1988 and 1991 it was possible to calculate multipliers (and deflators following the 1989 property market crash) in order to bring all capital valuations to a common date which matched the Council Tax valuation date.[11] Because the dataset included a variable for properties whose sales were at non-market prices, a very small number of these properties could be excluded from the dataset. This process, as with all the empirical calculations on the Nationwide Anglia Building Society data were carried out using SPSS statistical software (Norusis, 1986; 1988a; 1988b; 1989) on the London School of Economics's VAX mainframe computer. Following the indexation process, each property was allocated to an appropriate Council Tax band on the basis of its value on 1st April 1991.

4.5.5 **Income indexation** : As previous sections have noted there is a trade-off between

11 These multipliers and deflators were calculated on the basis of regional location, age of property, type of property and purchase date.

the level of detail included on different elements within the data. In this analysis the trade-off has been between spatial detail and details of household income. The Family Expenditure Survey has detailed data with a relatively limited geographical distribution which relate to the expenditure and income of a relatively small number of households. By contrast, the Nationwide Anglia Building Society data have precisely the opposite characteristics - a large number of geographically distributed households with relatively rudimentary income data. For an informal model of the impact of the Council Tax, overall household income is the most significant variable, rather than detailed individual household members' incomes, as is the case with a formal tax / benefit model such as TAXMOD. The number of adults in each household is important both for the calculation of a household's total liability for Community Charge and for calculating eligibility for the 25% reduction in Council Tax for single adult households.

The Nationwide Anglia Building Society income data comprise a single figure of gross weekly income for the primary and secondary earners of each household and a composite figure for the whole household, the aggregate income of all household members. Because of gross income figures are recorded, it was not possible to adjust income to produce equivalent incomes, a procedure which requires net income figures, after national Income Tax and National Income Contributions have been taken into account (Gardiner, Personal Communication).

As with capital value data, income data also required indexation since the figures related to when the mortgage was granted, i.e. the date of recorded income varied between 1988 and 1990. Because for primary earners the dataset includes the quarter the income was recorded, the earner's regional location, the earner's sex and type of occupation, it was possible to use the New Earning Survey (New Earnings Survey, Various Years) to construct a set of multipliers to adjust each of the primary income figures to a benchmark date of April 1992, the latest available date for the New Earning Survey. For secondary income figures, the type of occupation was not recorded so the secondary income multipliers had to be the average for all types of occupation. This is the standard procedure for income indexation for use in tax / benefit modelling (Sutherland, Personal Communication). Following this process the Nationwide Anglia sample was distributed between nine income brackets ranging from those households earning between £0 and £150 to those earning over £850 per week.

4.5.6 **Household types** : Previous chapters have noted that the distribution both of Community Charge and Council Tax, as well as the pattern of tax change produced by the shift between the two taxes is likely to be differentiated by household type. The Nationwide Anglia data was initially divided into five household types - single adult, single parent, two adult, nuclear family and multiple adult households. These household types

were selected in order to capture the likely different experiences of both Community Charge and Council Tax. Thus, single adults were selected since these households were paid low Community Charge bills and subsequently higher Council Tax bills. The reverse is true of multiple adult households. Single parents were selected as a group since single parent households necessarily have larger properties than single adults and therefore higher Council Tax bills. Two adults households represented a group similarly differentiated from nuclear families. Nuclear families are the commonest form of household and the type for which the transition to Council Tax was likely to be most marginal.

Single adult households are an important group, accounting for 26.6% of the Nationwide Anglia Building Society sample. Figures given by the Department of Environment (DoE, 1991a) derived from the 1987-89 Family Expenditure Survey suggest that single adult households account for almost 33% of all households. Two adult households account for 42% of the Nationwide Anglia sample, somewhat lower than the Department of Environment figures of 54%. This group comprises households with no children or additional adults and is therefore to be dominated by young couples, with a small number of retired or childless couples. By dint of having no additional household members to accommodate, on average the properties occupied are likely to smaller and therefore liable for lower Council Tax than nuclear family households, although the two groups will have similar Community Charge levels. When nuclear family households are included two adult households account for 71.8% of the sample, an overrepresentation of 17%. This overrepresentation of this type of household is not surprising in a set of data provided by a building society since the majority of those entering new mortgage agreements is likely to of this type. However, the analyses differentiate between these household types, preventing this overrepresentation from having a significant impact. The last group, multiple adults, although only representing a small proportion of the sample has been included to allow examination of the impact of Community Charge and Council Tax on a group which is likely to have paid some of the highest Community Charge bills.

Although the distribution of these types of households is extremely consistent across the regions, the distribution of households types across income groups is not consistent on a regional basis. The geography of income ensures, for example, that the number of households falling into the lowest income categories in the North is proportionally larger than in the South Eastern regions. As noted in the previous section, this potentially masks the effects of regional differences in other variables such as capital value or levels of Community Charge. The simplest solution to this difficulty would be to present the analysis at the regional level for income groups in terms of household types. However, even with the very large Nationwide Anglia dataset, sample sizes of the five types of households used in other chapters become too small to provide reliable results.

The solution used for the distributional analyses is to reaggregate similar household types into two groups, Single Adults and Two or More Adults. The first group amalgamates the original single adult household type with the single parents group. All other households fall into the second group. This reaggregation of household types necessarily results in a loss of analytical power since the relatively subtle differences in the experience of the Council Tax noted previously between single parents and single adult households as well as between Two Adult households and Nuclear Families will be lost. This loss of accuracy will be in areas such as the relationship between capital value and household type where e.g. Two Adult households have a lower average capital value than Nuclear Families because of their need for a smaller property, this will follow through into average Council Tax bills. Similarly, because of the inclusion of multiple adult households into the second household group, the number of adults will be less precise than in previous analyses. However, since multiple adults comprise less than 2% of the overall sample this distortion is likely to be minimal.

4.5.7 **Calculating household Community Charge bills** : In order to calculate household liability for Community Charge and a household's eligibility for assistance under the Community Charge Relief Scheme information was required on the household's composition in terms of taxable adults, the household's local authority location and the property's prior rates bills. The local authority location was used to allocate the appropriate 1992/3 'headline' tax rate for each taxable household member whilst the household composition was obviously required in order to assess the number of Community Charges for which a household was liable. The exact calculation of this was very simple for the majority of households - the FAMTYPE variable coded the principle earner's marital status as married, divorced or single. Cohabiting couples had been coded as married (Nationwide Anglia Building Society, Personal Communication). The only difficulty presented was by households with older children who could be liable for Community Charge. The number of possible charge-paying children was not clear since no variable categorically noted the number of children aged 18 or over. The contributing variables were KID4 (Number of dependent children aged 16 to 20), KID5 (Number of dependent children aged 21+) and FAMCYCLE (when equal to 6, married - youngest child aged 16+). An additional adult was included in a household's liability for Community Charge, firstly when KID5 indicated there was a dependent child over 21+ living in the household (two additional adults when KID5 equalled two); and second, when there were more than two children aged between 16 and 20. When there were more than three children aged between 16 and 20, a further liable adult was added. This relatively complex process of implying Community Charge liability is necessarily an approximation, but its implications for the actual analyses are likely to be limited since the number of households where this procedure was necessary was fewer than 400.

In order to accurately calculate household Community Charge bills, effects of the Community Charge Reduction Scheme had to be taken into account. This scheme, originally designed as a transitional measure during the Community Charge's introduction, was amalgamated with the £140 'headline' Community Charge reduction announced by Norman Lamont in the 1991 budget. The original transitional relief scheme had been designed to limit Community Charge bills for those who had previously experienced very low rates bills. In addition to the funds committed to the 'headline' rate reduction the cost of the scheme was projected at £1.25bn, or £78 per chargepayer during 1992/3. The Department of Environment estimated that nearly half of all chargepayers qualified for some level of reduction (DoE, 1991c). At a broader level the Community Charge Reduction Scheme foreshadows many of the options taken in the design of the Council Tax. The scheme links the Community Charge with its predecessor property tax, the rates, and becomes a household as well as an individual tax. The scheme operated by limiting the rise between 1989/90 household rates bills and the 1991/2 total household Community Charge to £52 (for single and two chargepayer households) with rises in headline Community Charge between 1991/2 and 1992/3 being met in full by each chargepayer. For households with more than two chargepayers the increase in bills between the rates and the total household bill faced under 1991/2 Community Charge is limited to £104.

Modelling this scheme was complicated by the poor quality of data on the rates variable included in the Nationwide Anglia dataset. These data were unusable so an estimation procedure developed by Rita Hale of CIPFA, known as the Wheelbarrow Method, was utilised. This procedure was used in CIPFA's publication 'Illustrative Council Tax Levels for 1992/3' (CIPFA, 1992). This procedure uses Inland Revenue data on the distribution of rateable value in each local authority to allocate appropriate rateable values to properties according to the corresponding distribution of properties across Council Tax bands (Rita Hale, Personal Communication). The rateable values thus implied were applied to households in the Nationwide Anglia dataset according to their Council Tax band and local authority location. Although this procedure is likely to produce only rough estimates of rateable value, it represents the only available estimation method which operates at a local authority level, thus retaining the likely geographical distribution of the effects of the Community Charge Reduction Scheme.

4.5.8 **Calculating household Council Tax bills** : By contrast with the difficulties of Community Charge bills, the calculation of Council Tax bills was a simple exercise. Since all households' properties had been allocated to a band and had a local authority identifier for the appropriate Band D tax rate, the calculation of household bills was a purely arithmetic exercise done by an SPSS program. This process was complicated only by establishing those households which were eligible for the single adult 25% reduction. The household identifiers FAMTYPE and FAMCYCLE made this a relatively simple exercise,

particularly since the calculation of household Community Charge bills necessitated the creation of a variable which recorded the number of adults in a household. The calculation of the eligibility for Council Tax Transitional Relief was equally simple once the previous liability for Community Charge had been established. The Council Tax Transitional Relief scheme limited the rise between the final year household Community Charge bills and the first year of Council Tax. Once again, this calculation was a purely arithmetic operation carried out within the SPSS statistical software package. Chapter Eight discusses the operation of the scheme in greater detail.

4.6 Conclusion

This chapter has discussed a range of potential approaches to the distribution of local taxation as well as the approach taken by the empirical analyses presented in this thesis. Although previous chapters have shown that the impact of the Council Tax is likely to be geographically differentiated this chapter has shown that there have been no analyses which have been able to provide an analysis of the household level distributional implications of the Council Tax below the national scale. Previous studies of the Council Tax based on generalised tax / benefit models of the entire tax and benefit system have been able to present analyses in terms of the implications for different income groups and the aggregate effects on the exchequer but have failed to capture the innate geographical structure of the local tax burden. This weakness of analysis based on previous formal tax / benefit models presents an opportunity for much more detailed distributional analyses of the Council Tax. The key reason for the poverty of geographically based distributional analysis of the Council Tax has been the lack of data on which to base such analyses. The approach taken in this thesis is to model Council Tax bills using a dataset provided by the Nationwide Anglia Building Society. The principal advantage of these data, which have not previously been used in any studies of local taxation, is that the data are capable of supporting distributional analyses at the sub-national level, as well as in terms of other variables.

In Chapter Five the results of modelling the Council Tax on the Nationwide Anglia Building Society data are presented. The analysis first deals with average Council Tax bills at the national and regional level and in terms of different household types. Chapter Five then presents a distributional analysis of the Council Tax in progressively greater detail. Chapter Five is used as the 'basic' analysis. The following chapters then examine the specific effects of transitional relief and changes from Community Charge to Council Tax using the models developed in Chapter Five as a base.

Chapter Five

Standard Distributional Analysis

5.1 Introduction

This chapter presents a household level distributional analysis of the Council Tax in a number of dimensions using the analytical approach discussed in the previous chapter. The first section considers the immediate context in which the Council Tax was introduced before going on to discuss the results of modelling the Council Tax at the national level. This allows an assessment of the modelling technique's reliability by comparing the modelled results with the findings of other analyses. The following sections provide a context for the analysis of the Council Tax's distribution across income groups by presenting modelled household Council Tax bills at the regional level and in terms of different types of household. These separate analytical dimensions - regional location and household type - are then amalgamated in an analysis of the Council Tax's distribution at the regional level for different types of household.

The latter sections of the chapter consider the Council Tax's distribution across income groups at the regional level. As the previous chapter noted, the problem of sample size at this level of disaggregation confines the analysis to the two, reaggregated household types, Single Adult and Two or More Adult households. These analyses highlight a number of aspects of the Council Tax's distribution. Using this chapter as a basis, these aspects are empirically examined in detail in subsequent chapters.

5.2 Council Tax bills at the National Level

The results presented here are of modelled average household Council Tax bills produced using the modelling technique discussed in the previous section. For the initial sections, the results exclude single adults households which qualify for a 25% reduction in Council Tax bills. The effect of including single person households would be to reduce average household bills, making comparisons with other figures, modelled without single adult households, more difficult. Where appropriate, results, particularly in later sections, are presented with single adult households included. The modelled bills are based on Community Charges for 1992/3 (including the effects of the Community Charge Reduction Scheme outlined in the previous chapter) and Council Tax rates for 1993/4. The effects of the Transitional Relief Scheme which operated during 1993/4 have been excluded at this stage unless explicitly noted but are assessed in more detail in Chapter Eight. The pattern of Council Tax's distribution without the effects of the Transitional Relief Scheme is more representative of the overall, long-term distribution than with the short-term effects of the

Relief Scheme.

5.2.1 **Council Tax's 1993/4 context** : It is necessary to briefly review the circumstances in which the Council Tax was introduced in 1993. One of the most important issues in considering the redistribution of the local tax burden arising from the transition between Community Charge and Council Tax is the change in the level of local government spending and local government revenue raised during the transitional period. The assessment of these changes is complicated by the shift in funding responsibilities during this period. Whilst local government lost responsibility for the funding of Further Education, which was taken over by the Department of Education-sponsored Further Education Funding Council, local government gained some funding responsibility for the Community Care program. The balance of these changes (in addition to other influences noted below) meant that local government spending fell from £38.4 in 1992/3 to £37.5bn in 1993/4 (Hale, Personal Communication), although effectively this translated into very little change in total spending, asButler, Adonis and Travers note :

> 'The grant settlement was sufficiently generous to ensure that when 1993/4 budgets were set during February and March 1993, the overall spending total was only about two per cent higher than in 1992/3. The council tax set was equivalent, overall, to a standstill in local taxation as compared with the previous year.'
>
> Butler, Adonis and Travers, 1994, Chapter Seven, p.26

The revenue raised from local domestic sources fell from Community Charge's £9,500m in 1992/3 to £8,911m raised by Council Tax in 1993/4, a fall of 6.2% (DoE, 1993, Table 31). Council Tax Transitional Relief Scheme (CTTRS) was projected to have contributed some £397m (or 4.5%) of this total, although bills in this chapter have been modelled at full Band D rates without the effects of the scheme. Effectively, local authority tax rates will have changed very little because of changes in the level of local spending. As this chapter shows, changes in household local tax bills can be attributed far more to the tax burden's redistribution, rather than to increase or decreases in the overall level of taxation.

5.2.2 **National level Council Tax comparisons** : This preliminary section offers a comparison between the thesis's modelled average Council Tax tax rates and bills at the national (England) level with similar results from other sources. This allows an indication of the reliability of the modelling process.

One of the most crucial elements in constructing a model of the Council Tax at the national level is to ensure that the distribution of the sample households across local authority areas produces an accurate reflection of the average level of Band D tax rates across the country. The modelled average Band D tax rate was £550, compared with the Department of Environment's early projection of an average Band D figure of £523 (DoE, 1991b). Giles

and Ridge's (1993) TAXBEN2 tax / benefit model-based average Band D Council Tax was £576. Part of this difference is due to Giles and Ridge's use of uncapped tax rates whilst the thesis results are based on actual, capped rates. The CIPFA average (derived from actual returns from local authorities) was £569 (CIPFA, 1994). Purely in terms of modelled Band D tax rates at the national level, the thesis's average Band D tax rate appears to compare extremely well with that produced by other analyses. This suggests that the modelling process and the data upon which the modelling is based are, at least at the national scale, a good reflection of the actual distribution of the Council Tax across England.

The modelled average bill for England (including Transitional Relief for the purposes of this comparison) for all households with at least two adults is £521. Although in 1993/4 tax rates set by nearly 90% of authorities meant average bills per dwelling fell between £300 and £500, bills ranged widely between £200 and over £800 (an even broader range with uncapped figures) (Giles and Ridge, 1993). If all households are considered, including single adult households, an average bill of £474 is produced. This compares with an average bill per dwelling from Giles and Ridge (1993) of £446, a figure which includes an adjustment for single person households. Although the design of the Council Tax assigns tax rates to each band based around Band D, since the introduction of the Council Tax it has become clear that a Band C bill is more illustrative of average bills than a Band D bill (this point will be amplified in the following section). This has been reflected in the government's shift from quoting a Band D bill to a Band C figure as a national average 'headline' bill.

Although this comparison of national average figures is encouraging in that it suggests the modelling process produces results comparable to other sources, subsequent sections which analyse regional disaggregations show that the 'average' figure for England is not particularly useful as an indicator of 'average' household experiences of the Council Tax.

5.3 Council Tax : Regional Distribution

Chapter Three's discussion of the design of the Council Tax has suggested that the distribution of the tax is likely to be geographically structured. The following section briefly reviews the factors which give rise to this geographical distribution in order to provide a clear context for the results given in this chapter.

5.3.1 **Council Tax and capital value** : Although the Council Tax is a composite or hybrid tax with characteristics of a number of other taxes, it is predominately a property tax based on capital value. The use of capital value as a tax base has significant implications for the geographical distribution of the tax burden. As Table 5.1 shows, capital value is unevenly distributed across England's regions. The most significant implication of this

Table 5.1 : Average regional capital values, Council Tax Band D Tax rates and Nationwide Anglia Average and Modal Council Tax bands.

	Av. Capital Values	Council Tax Band D	Nationwide Average Band	Nationwide Modal Band
North	47,145	645.35	A	A
Yorks & H'side	49,668	595.93	A	A
North West	59,445	641.45	B	A
East Midlands	54,973	555.04	B	A
West Midlands	60,343	580.91	B	A
East Anglia	67,740	504.86	C	C
Outer South East	64,940	511.86	C	C
Outer Met. Area	78,442	537.23	D	C
London	76,260	572.41	C	C
South West	67,315	546.12	C	C
England	64,709	549.77	C	C

Data Source : Nationwide Anglia Building Society
Calculations : Author

uneven distribution is that liability for Council Tax will be similarly geographically distributed, irrespective of the operation of the Revenue Support Grant which is designed to equalise for differences in both expenditure need and taxable resources. Although the grant system is designed to allow local authorities to set a standard Band D tax rate, because regional variations in average capital value exist, similar variations will exist in average Council Tax bills although Band D bills could be identical.

It is useful for later analyses to highlight here some of the differences in regional average and modal capital values (For a map of the Nationwide Anglia regions used in the following analyses, see Map 5.1). The lowest capital value areas are the North and Yorkshire and Humberside leading to their Band A average and modal Council Tax bands. The North West, perhaps surprisingly, has marginally higher average capital values, closer to those of the East and West Midlands, all of which share Band B average Council Tax bands. Forming a group of regions with average capital values closer to the England average, are the Outer South East, East Anglia and the South West. The average capital value for the Outer South East might appear to be surprisingly low. This region was adopted for use by the Nationwide Anglia because of this characteristic which differentiates it from its higher value neighbour, the Outer Metropolitan Area (Nationwide Anglia, Personal Communication). Although sharing similar average capital values the Outer Metropolitan Area's average falls into Band D whilst London just falls into Band C.

Table 5.1 suggests that regional differences in capital value are dampened by Council Tax banding with since the range of Bands across the country is small in terms of both average and modal bands. If the maximum difference in capital value between regions is three capital value bands (Yorkshire and Humberside's average band being A and the Outer Metropolitan Area's being D) then the maximum difference in regional average bills for spending at Standard Spending Assessment will be a third of the Band D bill. In terms of the England figure, this maximum difference in average bills will be £190. The implications of the differences between modal and average capital values will become clearer in later analyses. Although the differences between modal and average bands are small, they potentially have significant implications for the regional experiences of Council Tax.

5.3.2 **Council Tax and regional tax rates** : The second influence producing regional differentials in average household bills is the level of Band D tax rates set by local authorities. Table 5.1 clearly displays a regional pattern of tax rates in which the highest rates are to be found in the North and North West, lesser rates in London, West Midlands and Yorkshire and Humberside. Below these rates are those for the South West, East Midlands and the Outer Metropolitan Area. The lowest regional tax rates are in East Anglia and the Outer South East. A comparison with the figures produced by CIPFA shows

Map 5.1: Nationwide Anglia Building Society regions

these modelled rates to be an accurate reflection of the actual regional tax rates (CIPFA, 1994, Table 4). The reasons for differences in regional Band D tax rates are complex. One of the most significant factors has been the expenditure capping powers exercised by central government since their introduction in the 1984 Rates Act. In the early years of capping, capping operated selectively so as to limit expenditure only in a small number of authorities which spent well in excess of their Standard Spending Assessment (SSA) or Grant Related Expenditure Assessment (GREA). Thus, other uncapped local authorities were able to spend above their assessed spending level but below their capping limit. Spending above assessed levels was not consistent but varied according to factors such as perception of need, political control and level of reserves. Some authorities increased spending above assessed levels throughout this period but avoided capping. Capping shifted from selective to a more generalised approach during the 1990s, which tended to 'lock in' the patterns of expenditure established in previous years. A further consequence of generalised capping is that capping limits have been set higher than under selective capping. This is part of an attempt to gradually force spending back towards SSA levels over a longer period of time, rather than the more immediate effects of selective capping. Nevertheless, the margin for spending above SSA still varies substantially between authorities. This can be illustrated by comparing the budget expenditure requirements and SSA level expenditure of Northern, North Western and London authorities.[1]

	SSA in £m	Budget Requirement in £m
Gateshead	144.2	154.6
Newcastle	204.8	226.6
North Tyneside	129.1	140.8
South Tyneside	111.7	117.9
Sunderland	210.0	216.1
Manchester	136.1	142.4
Liverpool	423.5	454.7
Sefton	188.8	198.7
St. Helens	123.7	131.5
Wirral	234.6	248.5
Wandsworth	250.7	243.4
Lambeth	310.2	318.4
Kensington & Chelsea	138.7	138.7

1 Budget expenditure requirement is the level of expenditure set by the local authority and sanctioned by the Department of Environment.

It is clear that the differences between budget and SSA are far wider in the northern authorities than in the London Boroughs. Whilst Kensington and Wandsworth's budgeted spending reflects political control, Lambeth's close correlation between SSA and budget requirement is due to greater exercise of capping powers on London authorities than those elsewhere.

A final influence upon tax rates is the prior experience of the difficulty of collecting Community Charge. The difficulties of collection have not been evenly distributed, metropolitan authorities having the worst experiences and shire districts the fewest problems. Local authorities which previously had collection difficulties are likely to have assumed lower Council Tax collection rates (particularly in the tax's first year) than other authorities which had fewer difficulties. Assuming lower collection rates implies a lower yield per band D equivalent property which will tend to increase tax rates.

It is clear then that there are a number of factors which have influenced regional tax rates leading to the geographically differentiated pattern of taxation shown in Table 5.1. As the following analyses show, this pattern has significant implications for the distribution of the Council Tax.

5.4 Council Tax bills at the Regional Level

This section briefly considers modelled average Council Tax household bills for different regions. This analysis is relatively brief since its intention is to provide a context for the more detailed distributional analysis contained in subsequent sections.

5.4.1 **Regional Council Tax bills** : Table 5.2 shows average regional Council Tax bills for all households with two or more adults (without Council Tax Transitional Relief Scheme), and, to facilitate a brief examination of tax changes, Community Charge bills for two adult households (including the effects of the Community Charge Reduction Scheme). The analysis of the implications of shifting from Community Charge to Council Tax will be dealt with in more detail in Chapter Eight.

Average regional Council Tax bills for households with two or more adults display marked regional contrasts. Bills range about the average for England of £532 from the lowest average figure East Midlands of £478 through to the average bill for London of £582. The range between the highest and lowest bills is £94, a variation of 20% about the average household bill for England. However, the regional pattern does not conform precisely to expectations. Although low capital value areas of the East and West Midlands display relatively low bills, other lowest bills are for East Anglia and the Outer South East, regions with average capital values. At the other end of the spectrum, largely due to regional tax rates some of the highest bills are found in the North West. Nevertheless, the Council

Tax's regionalised pattern of distribution is clear, the following sections investigate this pattern in terms of absolute and percentage tax changes.

5.4.2 **Regional tax changes** : The differences in the tax levels set by local authorities in different parts of the country will tend to mask the capital value-based effects of the Council Tax's introduction. One method of better illustrating the regional pattern of the Council Tax's distribution is to examine changes in the shift between Community Charge and Council Tax, thus isolating the influence of absolute differences in average bills. As noted previously, the very small change in levels of the level of revenue raised from local domestic tax sources between the two relevant years, 1992/3 and 1993/4 allow this analysis to focus on changes arising from the redistribution of the local tax burden, rather than on changes in the size of that burden. This analysis is purely illustrative, a more detailed comparison of these figures will be made in Chapter Eight.

Table 5.2 shows that average tax bills for all households with two or more adults across the whole of England fell by £7.25. The hypothesised regional pattern of tax change due to regional differences in capital values is strongly evident with regional differences in tax rates isolated. Tax changes range from a gain (ie a decrease in average tax bill) of £36.12 for the North to a loss of £35.63 in the Outer Metropolitan Area. The small gains in these regions can be attributed to two factors. First, the Outer South East's average capital value is lower than might be thought, being lower than both East Anglia and the South West. Secondly, East Anglia and the South West experienced low tax rates in comparison with neighbouring regions. Thus East Anglia and the Outer South East (and to some extent, the South West) comprise a set of regions which fall between the high value regions such as London and the Outer Metropolitan Area and low capital value regions of the North and midlands. The regions which gained from the Council Tax's introduction were those with relatively low capital values, particularly those in the Midlands. Gains were also made by the Outer South East and East Anglia. By contrast the regions which experienced increases in local tax were those with higher capital values - London, the South West and the Outer Metropolitan Area. The tax change figures clarify the apparently similar experiences of the North West and the Outer Metropolitan Area, regions with very different capital values but similar Council Tax levels. With differences in regional tax rates isolated, tax change figures show that households in the Outer Metropolitan Area experience a substantial tax increase whilst those in the North enjoy a decrease.

Reviewing tax changes in terms of percentages, shown in Table 5.2, further isolates the influence of regional differences in tax rates.[2] Although the North experiences the largest

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2 The percentage tax change figures are average figures for all households with two adults or more adults rather than arithmetic calculations based on the average regional tax figures. This explains why the tax change for England implies an average absolute gain from the transition but a percentage increase.

Table 5.2 : Average regional Community Charge and Council Tax bills, absolute and percentage tax change for all households types with more than one adult.

	Community Charge	Council Tax (£)	Tax Change (£)	% Tax Change
North	559.18	529.22	-36.12	-5.6
Yorks & H'side	506.18	498.03	-12.18	-2.4
North West	593.53	580.69	-16.57	-2.8
East Midlands	508.76	478.75	-35.56	-7.0
West Midlands	552.28	526.03	-30.27	-5.5
East Anglia	498.94	482.87	-20.07	-4.0
Outer South East	492.25	481.57	-15.85	-3.2
Outer Met. Area	517.24	558.10	35.63	6.9
London	568.34	582.11	8.20	1.4
South West	515.34	521.98	1.18	0.2
England	534.54	532.13	-7.25	-1.4

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving.

absolute gain, in percentage terms, the largest gain is in the East Midlands with a percentage tax change of 7%. The relatively high capital value regions of the South West, London and the Outer Metropolitan Areas all lose, in the case of the last two by substantial amounts, the largest percentage loss being in the Outer Metropolitan Area, an increase in average bills of 7%. Whilst regions of lower capital value - the North, the North West,the West and East Midlands - made relatively large tax change gains, it is noticeable that these gains were not evenly distributed. In particular, both the North West and Yorkshire and Humberside did not make either absolute or proportional gains as substantial as those of other low capital value regions. The explanation for Yorkshire and Humberside's relatively small gains from the Council Tax relates to the interaction of the local domestic taxes and the grant system and in particular to the loss of Area Protection Grant. Up to 1990/91 local authorities in Yorkshire and Humberside received a higher block grant to compensate them for low taxable resources, i.e. low rateable values. On the introduction of the Community Charge the area's local authorities received Area Protection Grant to cushion the effects of losing the previously high Block Grant levels caused by the introduction of a new tax base under Community Charge. This continued through to 1992/93 when the region was receiving £133m or 43% of the total Area Protection Grant. The new grant system introduced with the Council Tax has integrated the provisions of the Area Protection Grant. However, the new grant system fails to fully compensate Yorkshire and Humberside for the loss of Area Protection Grant with the result that the region suffers a net loss in terms of external support, despite its low average capital values (CIPFA, 1992). As a result local authorities have been forced to raise a greater proportion of their revenue locally, thus forcing the domestic tax burden upwards.

Both East Anglia and the Outer South East also experienced gains or savings from the Council Tax's introduction. The Outer South East made gains despite the neighbouring region of the Outer Metropolitan Area experiencing substantial increases in taxation. This differential is due to differences in capital value. Table 5.1 shows that despite their proximity the two regions have significantly differing capital values which produce the tax differentials since on average, both the Outer Metropolitan Area and the Outer South Eastern local authorities set similarly low Band D tax rates (average Band D rates for OMA and OSE are £537 and £512 respectively).

5.4.3 **Regional Council Tax bills - Summary** : This brief analysis of the regional distribution of the Council Tax has been intended to provide a context for the subsequent analyses rather than provide an exhaustive study. Nevertheless, a number of issues have been highlighted. The first is the distinct regional pattern to the distribution of the Council Tax burden which has been produced by a complex interaction of factors which include the geographical distribution of capital value, differences in tax rates - historic and current - as well as the operation of the grant system. These influences will be returned to in the

following analyses. The next section presents an analysis of Council Tax bills in terms of household types.

5.5 Council Tax bills by Household Type

The following sections briefly deal first with the distribution of the Council Tax in terms of different types of household tax. This analysis is then extended to discuss average Council Tax bills for different household types at the regional level. Again, this analysis is relatively brief since it is intended principally to provide a context for the subsequent analysis in terms of income groups. The best illustration of the significance of disaggregation in terms of household types is found in implications of shifting from the per capita tax of Community Charge to the principally capital value based Council Tax. More detailed consideration of this aspect is given in Chapter Eight.

Even if the Council Tax was not the hybrid tax discussed in Chapter Three and was a pure property tax, the implications of moving from a per capita tax would still be significant. However, since the Council Tax incorporates elements of both a household and a per capita tax as well as a capital value tax, the implications for the shift from Community Charge become even more complex. The previous chapter has already discussed how the selection of the types of household on which to base this analysis has been dictated by the likely implications of the shift from Community Charge to Council Tax. As was noted, the losers in the shift from Community Charge to Council Tax are likely to be single parent and single adult households since a tax on capital value will be relatively high for a single person household in comparison with a single Community Charge. In this regard, the empirical research considers to what extent the Council Tax's 25% reduction for single adults households offsets the increase due to capital value taxation of domestic property. At the opposite end of the spectrum is the group which is likely to gain most from the Council Tax, households comprising multiple adults. This type of household suffered considerable increases in local tax bills in the shift to Community Charge from rates. Council Tax was designed to have a marginal impact upon the other household groups - couples/two adult households, nuclear families (two adults with children) - although it is expected that the impact of the Council Tax will be significantly influenced by relative local tax rates and by regional location.

5.6 Council Tax bills at the National Level by Household Type

Table 5.3 shows the disaggregations of both Council Tax and Community Charge bills for different types of households for all regions of England. Since this analysis includes all households the influence of single adult households acts to reduce average bills in comparison with the previous analysis which was based on two adult households for Community Charge and those of more than a single adult for Council Tax. Although the average Council Tax bill for all households is £488 (compared with £529 in the previous

Table 5.3 : Average Community Charge and Council Tax bills, absolute and percentage tax change by households type.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
Commun Charge	284.70	528.43	283.46	543.16	752.55	473.47
Council Tax	360.65	510.24	371.66	559.53	595.00	488.15
Tax Change	75.95	-18.19	88.21	16.38	-157.88	14.68
% Tax Change	30.72	-2.22	33.73	3.82	-20.46	7.92

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving.

analysis) the differences between bills for household types are considerable. The explanation for these differences is simple in that the size of property required by different types of household is related to the number of occupants. The capital value of a property is obviously closely related to its size. Because the proportions of household types included in the Nationwide Anglia data is very consistent across all regions, average Council Tax bill will not be skewed by e.g. a greater number of family properties in one region.

5.6.1 **Single adult households** : Single adult households are a significant group in terms of size, accounting for 26.6% of the Nationwide Anglia Building Society sample whilst figures given by the Department of Environment derived from the 1987-89 Family Expenditure Survey suggest that single adult households account for 33% of all households (DoE, 1991b).

Single adult households paid the lowest bills under Community Charge paid by a wide margin. Since these households have subsequently moved closer to the mean for all households under Council Tax it is unsurprising that both single adult and single parent households lose considerably through the introduction of Council Tax. It is noticeable that the variation between single adult and single parent households is wider under Council Tax reflecting the higher capital value of the larger properties needed by households with children. The scale of losses produced for this type of household by the Council Tax is significant, in the case of single parents losses are over £75, an average increase of over 50% on the Community Charge whilst single adults' losses are of a similar level. This level of tax change is extreme in comparison with the other types of household. This suggests that, at least at the England level, the 25% reduction for single person households under the Council Tax fails to compensate such households for the shift to a form of property taxation. Bearing in mind the evidence of the regional analysis it seems likely that this increased taxation for single adult households will also be regionally differentiated.

5.6.2 **Two adult households** : This type of household accounts for 42% of the Nationwide Anglia sample, somewhat lower than the Department of Environment estimates of 54% but when nuclear family households are included the broader measure of the numbers of two adult households, the group accounts for 71.8% of the sample. This group comprises households with no children or additional adults and is likely to be dominated by young couples, with a small number of retired or childless couples. By dint of having no additional household members to accommodate, on average, the properties occupied by two adult households are likely to smaller and therefore of lesser capital value than nuclear family households. This is reflected in the lower average Council Tax levels for two adult households in comparison with nuclear family households, a difference less evident in Community Charge levels. Couples or Two adult households fare well from the

introduction of Council Tax. The shift from paying two Community Charges to paying Council Tax implies an average Council Tax bill £18 lower than that under Community Charge. Although not modelled here, Council Tax Transitional Relief will cushion the impact of the new tax, particularly for those living in areas of high capital value with low tax rates. This will also be true for Nuclear and Multiple Adult households.

5.6.3 **Nuclear family households** : The shift from the Community Charge to Council Tax is most marginal for the 'nuclear family' type of household, i.e. two adults with one or more children. Whilst Community Charge levels are very similar for Nuclear Families and Two Adult households, the average Council Tax is higher for Nuclear Families at £559.53, leading to an average tax increase of £16.38. The very marginal average tax change of 4.1% is unsurprising since the political impetus behind the Council Tax was to produce a form of local taxation which would be seen as being fair but without causing a political furore by increasing tax burdens on important voter groups (Adonis, Butler and Travers, 1994).

5.6.4 **Multiple adult households** : Although households with more than two adults comprise only 2% of the Nationwide Anglia households, the shift to Council Tax makes a very significant difference in the group's tax levels. Rather than paying for each adult member of the household tax is levied simply upon the first two adults and the capital value of the property. As a result, instead of paying an average of £752.55 under Community Charge, such households pay an average of £595 in Council Tax, an average saving of £158, a 20.5% saving. It is noticeable though that in percentage terms this gain is still well below the losses incurred by single adult households.

5.6.5 **Council Tax bills by household types - Summary** : This brief, preparatory, analysis has shown that household type is a further influence upon the Council Tax's distribution. The analysis of the shift to the Council Tax suggests that the pattern of tax change is more complex than the crude figures for all types of households might have suggested. This suggests that the experience of different types of households occupying similar properties in the same local authority will be significantly different. Nevertheless the pattern discussed so far has been abstracted from the influence of regional location, an influence which previous sections have shown to be important. The following sections give brief consideration to the effects of disaggregating the bills faced by different types of household in different regional locations.

5.7 Regional Council Tax bills by Household Type

The previous sections have considered local tax bills in terms of firstly geographical location and secondly of household types. This following more detailed analysis examines the household and regional effects simultaneously, a form of analysis which has not been

previously undertaken. This analysis allows an assessment of the degree to which the regional location influences the Council Tax bills faced by different types of households. As with the previous sections, the following analyses are not intended to be exhaustive but rather they provide a context for the more detailed study of the distributional implications of the Council Tax in later sections. The discussion therefore focuses on average Council Tax bills and tax change figures although tables for average Community Charge bills are also included in Table 5.4.

5.7.1 **Single adult households** : The previous sections have already shown that the negative effects of the introduction of the Council Tax were felt most by single adult and single parent households. Despite the 25% reduction for single adults it is likely that all single adult households would experience an increase in local tax which would be geographically distributed with those in high capital value areas losing most. In 1993/4 the effect of the Council Tax Transitional Relief scheme, although unmodelled here, would ameliorate these increases.

Table 5.5 shows the pattern of regional disaggregations of average Council Tax bills for different types of households. The average bills for single adult households range from £315.93 in the Outer South East to £411.13 in London around an average of £360.65. The similar patterns of tax change for single adults and single parents show how both types of household were affected similarly by Council Tax. The England average increase in tax levels of £63.59 or £70.49 shown in Table 5.6 masks how regional location strongly influences the extent of household tax increases. The highest increases are in London and the Outer Metropolitan Area where the increases are between £123 and almost £107, giving effective average increases for London of 57% and for the Outer Metropolitan Area of 46% (Table 5.7). These very significant increases in both the Outer Metropolitan Area and London are largely attributable to the regions' relatively high capital values. The percentage tax rises for other regions are roughly half for these South Eastern regions, although the lowest tax increases for single adult households in the North and the East Midlands are still significant with increases of 16.9% and 14.5% respectively. Here low capital values ensure that increases in average local bills are not of the same magnitude as in the South East. Despite its low capital values Yorkshire and Humberside has tax changes comparable with the higher capital value regions such as East Anglia and the South West, reflecting the loss of its Area Protection Grant discussed earlier.

5.7.2 **Two adult households** : The most striking aspect of the tax reductions for two adult households is that these gains are very small in comparison with the losses experienced by single adult households whose losses are over triple the average level of gain for two adult households. The average tax changes for two adult households for all regions is £18.19, an average percentage reduction of -2.22%. This marginal change

Table 5.4 : Average Community Charge bills by household type and by region.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	307.92	550.14	301.65	569.64	763.38	498.47
Y&H	270.28	497.18	270.58	515.46	708.18	446.91
NW	321.94	586.49	321.50	600.91	796.11	521.33
EM	280.74	501.51	276.22	518.07	704.86	455.78
WM	291.15	548.17	287.70	557.87	733.65	490.58
EA	269.25	491.40	265.26	508.58	696.26	454.58
OSE	259.70	485.09	259.60	502.90	735.27	441.02
OMA	264.23	513.60	262.22	526.60	783.58	463.11
Lond	288.04	570.40	285.00	563.89	808.78	476.73
SW	280.11	505.77	275.84	528.45	718.64	465.51
Engl	284.70	528.43	283.46	543.16	752.55	473.63

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 5.5 : Average Council Tax bills by household type and by region.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	358.39	510.00	356.14	547.13	593.87	484.92
Y&H	330.82	481.47	341.75	513.50	541.19	454.42
NW	381.19	555.53	377.36	604.35	651.42	525.52
EM	319.90	458.77	331.66	501.15	507.30	439.28
WM	351.49	506.89	366.72	550.04	563.92	483.32
EA	318.10	466.46	349.10	500.27	558.52	449.81
OSE	315.93	458.19	346.26	512.03	560.43	443.19
OMA	371.11	528.03	389.62	606.25	663.52	515.15
Lond	411.13	560.62	433.86	623.90	641.80	524.68
SW	346.58	498.89	380.29	549.92	578.57	482.84
Engl	360.65	510.24	371.66	559.53	595.00	488.15

Data Source : Nationwide Anglia Building Society
Calculations : Author

masks considerable regional differences, as can be seen in Tables 5.6 and 5.7. The largest gains are to be found in the North (£40.14), East and West Midlands (£42.74 and £41.28 respectively), in absolute terms over double the average gain for England (£18.19). The regional pattern found under single adults is repeated here with gains closer to the England average for other regions, including Yorkshire and Humberside. The South West's low gains for this type of household (£6.88 and 0.32%) reflects a combination of a previously low Community Charge and relatively higher capital values. This is also true for the Outer Metropolitan Area's two adult households which experience the only cash increase in local taxation (although London has a percentage increase of 1.6%).

5.7.3 **Nuclear families** : This group comprises those households which have two adults and at least one child under eighteen. As a result of these larger households, properties will tend to be larger and therefore in higher Council Tax ~~(higher)~~ bands. The patterns of distribution of Community Charge and Council Tax are consistent with those described previously. Tables 5.6 and 5.7 clearly demonstrate that regional disaggregations illuminate the differential impact of the Council Tax. Whilst the England average indicates that nuclear families have small increases in local tax levels (£16.38 or 3.8%), the difference in the change in local tax levels between the regions of the Outer Metropolitan Area and the North is over £100. Nuclear family households living in the North are likely to pay £22 less than under Community Charge whilst Outer Metropolitan households will find their bills rising by roughly £80. It is interesting to note that the Outer Metropolitan Area tax change figure is higher than the London figure, a rise of £79.54 compared to one of £60 despite London's average capital value figure being higher. Because the Outer Metropolitan Area's average headline rates were relatively low under Community Charge, the redistribution of the local tax burden under Council Tax means that relatively more local revenue has to be raised from local sources by the Outer Metropolitan authorities.

5.7.4 **Multiple adult households** : Although this group makes up only a very small proportion of the sample, it is interesting to examine the impact effects of the Council Tax on these extreme cases. These households make substantial gains in the transition to Council Tax but, as with other household types, the degree to which they gain depends very much upon regional location. As might be expected with its previously low Community Charge and high capital value, the Outer Metropolitan Area has the smallest gains (£120, 18%) whilst those resident in East Midlands stand to gain most with a £198 or 27.6% reduction in average local tax bills.

5.7.5 **Regional Council Tax bills by household type - Summary** : The preceding sections of this chapter have established a context against which the detailed distributional analyses presented in the rest of the chapter can be considered. The brief analysis of the Council Tax's distribution in terms of household type and regional location have yielded a

Table 5.6 : Average tax change by household type and by region.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	50.48	-40.14	54.49	-22.51	-169.51	-13.55
Y&H	60.53	-15.71	71.16	-1.96	-166.98	7.51
NW	59.25	-30.95	55.86	3.44	-144.69	4.19
EM	39.16	-42.75	55.44	-16.92	-197.56	-16.50
WM	60.34	-41.28	79.02	-7.83	-169.73	-7.26
EA	48.85	-24.94	83.84	-8.32	-137.73	-.77
OSE	56.23	-26.89	86.66	9.13	-174.84	2.17
OMA	106.88	14.43	127.41	79.64	-120.06	52.04
Lond	123.01	-9.78	148.89	60.00	-166.99	47.95
SW	66.47	-6.88	104.45	21.47	-140.06	17.33
Engl	75.78	-18.19	88.21	16.38	-157.55	14.68

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

Table 5.7 : Average percentage tax change by household type and by region. (%)

%	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	16.9	-6.6	18.3	-3.5	-21.5	0.3
Y&H	23.7	-2.3	27.8	0.3	-22.1	5.4
NW	19.2	-4.3	18.4	1.2	-18.6	3.9
EM	14.6	-8.3	20.8	-3.3	-27.6	-1.2
WM	21.0	-7.4	27.7	-1.3	-23.5	1.5
EA	19.5	-4.1	33.5	-0.8	-19.6	2.1
OSE	22.8	-4.9	34.3	2.3	-23.7	3.9
OMA	45.5	4.5	54.1	16.3	-14.8	17.2
Lond	57.3	1.6	64.0	13.6	-18.1	22.8
SW	24.4	-0.3	32.8	4.6	-18.8	6.9
Engl	30.7	-2.2	33.7	3.8	-20.5	7.9

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

number of important features of the Council Tax. As previous chapters hypothesised, the Council Tax's distribution is marked in its geographical organisation, reflecting the geography of capital value, with households living the regions of higher capital value facing higher Council Tax bills than those in lower capital value areas. However, a number of other geographically differentiated influences upon the Council Tax's distribution also exist, notably the influences of tax rates and the operation of the Revenue Support Grant. The outline analysis of the implications of shifting from the Community Charge to the Council Tax illustrated the impact of moving from a per capita tax to one principally related to capital value. The impact of this shift has been shown to fall most heavily upon single adult households, the 25% reduction for single adult households lessened the impact but average tax burdens on this type of households still increase dramatically. Whilst multiple adult households fare well from this shift, the shift was relatively marginal for families and two adult households. The regional analysis of Council Tax bills for different household types showed that these patterns across household types were also regionally differentiated. The following section considers the distribution of the Council Tax in terms of income groups

5.8 Council Tax bills for Income Groups

As Chapter Three noted, the Council Tax has been presented largely in terms of a return to a form of property tax and with that a greater degree of progressiveness, at least in comparison with the Community Charge, is expected. However, the national level distributional analyses carried out by authors such as Hills and Sutherland (1992) and Giles and Ridge (1993) have suggested that the Council Tax has acquired a greater degree of progressiveness only through the greater generosity of its associated relief scheme for low income households, Council Tax Benefit.

The implication of previous analyses showing that the burden of the Council Tax is geographically distributed suggests that the degree of progressiveness the Council Tax possesses will also be geographically distributed and that the experience of the shift from Community Charge will be differentiated by household type. The distributional analyses presented in the following sections present a progressively more detailed analysis of Council Tax's distribution in terms of income groups, first regionally and then in terms of types of household for whom the experience of the Council Tax previous analyses have shown to be substantially different. In the final and most detailed elements of this analysis, the two elements of the previous analysis are presented simultaneously, i.e. a distributional analysis of the Council Tax for different household types at the regional level. This form of analysis has not been undertaken previously and has been facilitated here through use of the Nationwide Anglia dataset whose wide geographical distribution and size allow analyses to be undertaken at this very detailed level. Although figures for Community Charge are included in the following analysis, the discussion focuses upon the

disaggregations for Council Tax and for the redistribution of the tax burden they imply.

5.8.1 **Council Tax bills by income group** : Table 5.8 presents income group disaggregations of average household Council Tax bills both nationally and regionally. The national average bills for each income group show the expected correlation between Council Tax bill and income level, Council Tax bills rising with income. This expected pattern is based upon the intuitive understanding that higher income households will occupy properties of higher capital value, leading to higher average Council Tax bills. The evidence of the previous sections however suggests that this very broad pattern is likely to be influenced by two important factors, household type and regional location. Household type seems likely to intervene in the pattern of average Council Tax bills since the larger a household, the greater the need for a larger property. Larger properties tend to be more expensive and therefore attract a higher level of Council Tax. Thus it is possible for single adult households on higher incomes to have a lower Council Tax than a larger, but lower paid household with several adults. If capital value was evenly distributed across the country and the grant mechanism produced perfect equalisation of resources and spending need, then the household analysis alone would suffice. However, the evidence of previous sections has shown that the regional factors have significant consequences in terms of local tax levels. These factors combine to produce an overall pattern of local tax burden distribution. As the following sections will show, the implications of these expected patterns of household tax distribution serve to underline the necessity for analysis to be undertaken in terms of income to deal both with regional influences and with the influence of household type.

These influences can be best seen in terms of tax change. Analyses in previous sections have shown that although household type largely dictates tax change patterns, the size of those changes are strongly influenced by regional location. Income group disaggregation brings a further avenue for analysis in that tax changes within household types and within regions are likely to distributed between such income groups. If the relationship between household income and capital value broadly holds it might be expected that (within the pattern of tax change for each household type) higher income groups will experience larger losses or smaller gains in the transition from Community Charge. This is likely to be influenced by regional variations in both prior Community Charge levels and in capital value as well as by the redistribution of external support from central government. These broad expectations of the research's analyses make it clear that the distribution of Council Tax is likely to be determined by a complex interplay of different influences. These influences include household type, regional capital values, income levels, as well as the operation of the various grant systems. The following sections move progressively from broader to narrower forms of analysis which attempt to isolate the workings of these separate influences.

Table 5.8 : Average Council Tax bills by income group and by region for all household types.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	382.93	398.33	460.40	507.55	564.93	610.41	676.58	719.35	809.33	484.92
Y&H	351.36	379.98	429.35	478.24	526.45	570.38	620.67	681.12	711.04	454.42
NW	397.66	424.01	484.42	547.69	619.86	686.36	734.24	795.39	826.58	525.52
EM	349.57	369.69	409.24	4406	486.36	543.84	620.90	635.51	689.54	439.28
WM	374.47	396.63	446.08	498.18	548.21	594.62	667.31	692.18	728.66	483.32
EA	381.10	379.09	410.48	441.84	468.95	521.42	535.41	588.88	579.93	449.81
OSE	373.65	371.13	391.20	423.21	449.30	489.95	533.75	577.15	621.05	443.19
OMA	432.18	428.16	449.22	477.40	494.35	526.35	577.50	625.21	690.31	515.15
Lond	465.19	464.46	452.89	482.37	503.86	521.94	556.62	593.74	679.95	524.68
SW	395.30	416.34	434.65	481.79	521.28	574.05	603.91	628.04	685.65	482.84
Engl	383.50	402.00	440.59	480.12	512.56	544.57	587.88	628.38	688.08	488.15

Data Source : Nationwide Anglia Building Society
Calculations : Author

5.8.2 **Council Tax bills at the national level by income group** : The distributional analysis begins with figures for household bills for all types of household and for all regions by income group (Table 5.8). The average household Council Tax bills for different income groups follow a pattern of steady increases as income rises. This confirms two intuitive expectations; firstly that a household's income rises with the size of the household and, secondly, as income rises households tend to occupy more expensive properties, irrespective of the number of household members. The average Council Tax bill for all households is £488.15, a range of bills of £304.58, a noticeably wider range than under Community Charge (Table 5.9) suggesting Council Tax's greater progressiveness. Average bills range across income groups from the lowest income group's bill of £383.50 to the highest income group (£850 and over) paying an average bill of £688.08.

It is worthwhile briefly considering tax changes across income groups for all households (Table 5.10). The expectation that higher income groups would experience increased taxation under Council Tax is broadly confirmed in that there is a general trend of rising losses with income with the £850+ income group facing an average increase of £158. However the national average increase in tax of £14.52 conceals an increase in taxation for the £0-£150 income group of £11 whilst the next three income groups make savings or extremely marginal increases. This pattern is further reflected in terms of percentage tax changes (Table 5.11). Although nationally all income groups lose from Council Tax in terms of percentage tax change, the lowest income group loses proportionally more than the four higher income groups whilst the four highest income groups lose most, the highest income group experiencing a tax burden which rises by over 40%. Although this pattern appears confused, further disaggregation in later sections suggests confirmation of the hypotheses previously established. The following section considers average Council Tax bills for income groups at the regional level.

5.8.3 **Regional Council Tax bills by income group** : Table 5.8 shows the distribution of average household Council Tax bills by region and by income group for all types of household. Although the pattern of Council Tax bills rising with income persists at the regional level, the tax levels follow the regional pattern of outlined earlier in this chapter. The North West has consistently higher bills than its neighbouring regions whilst the other highest average bills are to be found in the regions with higher average capital values, notably in London and the Outer Metropolitan Area. There should be a clear correlation between household Council Tax bills and the level of household income, though both the Council Tax bills and household income should be regionally differentiated. It has already been shown that the sample displays a geographically structured distribution of income and Table 5.8 suggests that the same is broadly true of the associated average Council Tax bills.

Table 5.9 : Average Community Charge bills by income group and by region for all household types.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	384.22	413.17	494.24	537.15	566.36	591.96	598.48	590.01	627.93	498.47
Y&H	331.69	381.11	444.21	479.31	506.21	580.41	530.71	534.00	555.77	446.91
NW	402.41	440.27	505.39	563.62	602.76	602.72	597.46	593.59	616.87	521.33
EM	359.78	389.30	437.55	484.29	507.55	522.90	548.20	532.59	539.26	455.78
WM	389.63	418.71	474.61	518.49	549.09	555.95	552.78	560.57	545.12	490.58
EA	378.28	396.51	432.26	459.75	486.12	502.44	487.58	509.13	470.08	454.58
OSE	339.87	368.39	400.87	436.27	463.11	486.88	496.48	512.89	502.94	441.02
OMA	360.13	371.86	402.51	434.31	469.26	496.48	514.34	518.29	522.60	463.11
Lond	350.40	383.98	390.08	425.43	482.05	509.67	540.56	531.25	523.19	476.73
SW	364.20	403.54	433.07	479.28	507.69	529.12	518.83	534.94	534.55	465.51
Engl	372.57	405.59	448.43	480.03	503.37	517.39	531.39	532.34	530.27	473.47

Data Source : Nationwide Anglia Building Society
Calculations : Author

Across average bills for each income group there is a consistent progression of increasing Council Tax bills as income rises. This suggests that in terms of household income, the Council Tax is a more progressive tax than Community Charge, although this is further investigated in the final sections of this chapter. There is, however, an anomaly in that in several regions - London, the Outer Metropolitan Area, the Outer South East and East Anglia - the average bills for the lowest income group are marginally above the £150 - £250 income group. As discussed in greater detail in the Methodology chapter, the Nationwide Anglia data have a small number of households for whom the expected relationship between income and capital value does not hold. These households occupy properties with capital values in excess of what their income would suggest as being viable in terms of likely mortgage repayments, often because the mortgage is only on part of the property's capital value. Because of this, in some cases substantial, 'mismatch' between income and capital value, income and average Council Tax bills appear to be equally mismatched, thus distorting average Council Tax bills by income group. This 'mismatch' is noticeable in a number of dimensions but particularly for single adult households because of their previously low Community Charges. This will also influence figures relating to the percentage of income taken in local taxes, as will be evident in subsequent sections. This difficulty will also be particularly apparent in regions with higher average capital values. The apparent concentration in these regions of households with a mismatch of income and capital value is likely to be misleading, these households are more apparent because their average capital values are higher and therefore appear to be more 'mismatched' than other, lower value, regions. For this reason, the regional pattern for the lowest two income groups is inconsistent with the expected distribution.

The regional pattern of average absolute and percentage tax changes (Tables 5.10 and 5.11) across all income groups appears less conclusive than that for average Council Tax bills. Lower income groups do not make the savings which might have been expected since across all regions (other than East Midlands) and all income groups percentage increases in taxation occur, although as income rises tax levels also rise. The inconsistencies noted with regard to the lowest income group become more apparent with, e.g. the Outer Metropolitan Area's £0-£150 group experiencing an increase of £34 or in comparison with the next income group's increase of only £2.47.

The difficulty with this form of analysis is that a number of influences are operating simultaneously, leading to a relatively confused pattern of tax change. The principal cause of this difficulty is the influence of the distribution of single adults across both regions and income groups, a difficulty which has been discussed in greater detail in Chapter Four. Household types are unevenly distributed across income groups, with lower income categories having proportionally more single adult households whilst the proportion of larger households rises with income. The Council Tax has been shown to lead to

Table 5.10 : Average tax change by income group and by region for all household types.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	-1.29	-14.84	-33.84	-29.61	-1.44	18.45	78.10	129.35	181.41	-13.55
Y&H	19.67	-1.13	14.86	-1.07	20.24	49.97	89.96	147.12	155.27	7.51
NW	-4.75	-16.26	-20.98	-19.13	17.10	83.64	136.78	201.80	209.71	4.19
EM	-10.37	-20.11	-28.30	-37.18	-21.19	20.94	72.70	102.92	150.28	-16.50
WM	-15.16	-22.08	-28.53	-20.31	-0.88	38.67	114.52	131.61	183.55	-7.26
EA	2.81	-17.42	-21.78	-17.91	-17.17	18.98	47.83	79.75	109.85	-4.77
OSE	33.78	2.74	-9.67	-13.05	-13.81	3.07	37.27	64.26	118.10	2.17
OMA	72.05	56.29	46.71	43.09	25.10	29.87	63.16	106.92	167.71	52.04
Lond	114.79	80.47	62.81	56.93	21.81	12.27	16.06	62.49	156.76	47.95
SW	31.11	12.41	1.58	2.51	13.60	44.93	85.08	93.10	151.10	17.33
Engl	10.93	-3.58	-7.84	0.09	9.19	27.12	56.49	96.05	157.82	14.52

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

Table 5.11 : Average percentage tax change by income group and by region for all household types. (%)

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	3.4	0.4	-3.0	-2.5	2.0	4.6	13.7	21.4	31.9	0.3
Y&H	11.0	4.9	0.8	3.2	7.2	12.1	19.1	30.7	32.1	5.4
NW	2.0	0.4	0.2	0.8	5.2	16.4	25.3	37.1	36.9	3.9
EM	0.7	-2.0	-3.3	-5.0	-2.2	6.4	14.5	20.6	30.5	-1.2
WM	-0.2	-1.1	-2.0	-0.85	2.1	8.7	22.4	26.0	37.6	1.5
EA	3.4	-0.4	-1.3	-1.1	-0.4	6.5	13.0	17.5	28.5	2.1
OSE	15.3	6.1	1.9	0.4	0.1	3.7	10.8	15.2	26.8	3.9
OMA	29.0	22.9	22.8	16.9	10.9	10.1	16.2	23.3	36.7	17.2
Lond	42.2	34.7	24.9	24.9	16.2	11.6	10.2	28.0	59.4	22.8
SW	13.2	7.3	4.3	3.9	5.5	11.0	19.1	20.0	31.3	6.9
Engl	7.6	4.1	3.6	5.0	6.6	9.7	14.8	25.0	41.0	7.9

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

increased local taxation on single adult and single parent households whilst for other types of household the effects of Council Tax tax changes have been shown to be far more marginal. Because of these factors, national average Council Tax bills for lower income groups for all household types will be skewed downwards by the greater proportion of single adults and the average tax change skewed upwards. Further to this is the difficulty that areas of lower average incomes will have proportionally fewer single adult households in lower income groups than in areas of higher average incomes. This is because a number of other types of household will fall into lower income groups. In analyses using all household types this will tend to influence average figures for both Council Tax (because of the 25% reduction) and tax changes (since such households will pay only one Community Charge). As a result, in lower average income areas tax increases will be relatively understated and overstated in higher average income areas. Analysis in terms of household types in the following section overcomes this difficulty.

However, a number of patterns do become apparent from these tables. In areas of lower capital value absolute savings are made by lower income groups, particularly in the West and East Midlands. It is also evident that on average the residents of the higher value East Anglian and Outer South Eastern regions also make marginal gains through the introduction of the Council Tax. At higher levels of income (where household type is far more consistent) both the patterns of tax increases with income and of those increases being regionally differentiated is much clearer. The largest increases are for the £850+ income group in the North West (37% or £210) and the higher capital value regions of London (59% or £157) and the Outer Metropolitan Area (37% or £168).

Within the regional pattern of change, which broadly conforms with previous analyses, it is apparent that the largest gains or smallest losses are to be found in the middle income brackets of £250 - £350, £350 - £450 and £450 - £550. The highest average decrease (£7.84 or +3.6%) across all regions falls in the £250-£350 income group. This pattern results from the effects of two different factors waxing and waning. At lower income levels the effects of household composition have a significant influence on average household bills. The higher proportion of single adult households in the lower income groups has the effect of reducing the average household gain in the shift from Community Charge. Income increases as the number of taxable adults increases, leading to the effect of single adult households on the average level of taxation being reduced. This is similarly true of Council Tax as a result of its 25% reduction for single adult households. As well as there being fewer single adult households in the higher income groups, higher capital values will increase average Council Tax bills. These middle income groups tend to be where the combination of these two influences (capital value and household composition) which give rise to large tax changes are at their least effective. This pattern is also regional, the northern and midland regions have their maximum gains or minimum losses

in the lower of the middle income brackets whilst the losses or gains in southern regions tend to peak in the upper middle income brackets. The explanation for this regional pattern lies in the distribution of different household types between income brackets. The northern and midland regions tend to have their highest proportion of single adult households in lower income brackets than in the southern regions. As a result the effects of single adult households on regional average tax changes are concentrated in lower income groups for the northern and midland regions and in slightly higher groups for the southern regions.

These factors conspire to make those resident in high capital value regions, living in single adult households and by implication, those in the lower household income groups, experience the highest changes in tax burden relative to income, this is borne out by the evidence of Table 5.11 which shows the percentage change in local tax bill by income group and by region for all types of household. In effect this table has removed the relative differences between regions and allows closer examination of how the introduction of the Council Tax changes the tax burden relative to the previous Community Charge bills. Although these figures are susceptible to the problems introduced by 'outlying' households, particularly in the lower income groups, the range of experience between regions and income groups is striking. Whilst the £250 - £350 income group in London and in the Outer Metropolitan Area experience tax increases of 25% and 23% respectively, the £350 - £450 income group in the West Midlands enjoys a reduction in household bills of more than 5%.

5.8.4 **Council Tax bills by household type and by income group :**
Disaggregations in terms of household type allows analysis, albeit at the national level, without the difficulties imposed by the regional distribution of single adults. Table 5.12 shows the average Council Tax bills by income group and by household type for all regions. The pattern shows a broadly consistent increase in Council Tax for each type of household with the highest tax levels levied on the highest income groups.

Beyond the difficulties of the lowest income groups, the distributional patterns conform precisely to those expected for both average Council Tax bills and for absolute tax changes (Table 5.13). The percentage tax changes figures (Table 5.14) are also entirely consistent with expectations. The overall average Council Tax bills are highest for multiple adult households, the households most likely to be occupying the largest and therefore more valuable properties. However, due to their previously high Community Charges all multiple adult income groups' local tax bills fall. Savings peak in the £250 - £350 income bracket and then progressively fall with income although even the £850+ income group find local taxation falling by 3.7%. This pattern suggests that the relationship between income and the number of adults is not linear, income rises faster than the number of adults

Table 5.12: Average Council Tax bills by household type and by income group.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
£0 - £150	331.45	468.45	340.62	479.13	506.47	383.50
£150- £250	331.79	464.54	344.02	476.06	492.08	402.00
£250- £350	347.39	460.49	367.68	507.14	514.46	440.59
£350- £450	375.84	479.35	380.39	546.20	567.10	480.12
£450- £550	387.05	503.19	402.07	592.04	614.05	512.56
£550- £650	414.64	534.29	424.77	621.94	654.86	544.51
£650- £750	433.67	575.31	452.83	659.51	666.88	587.88
£750- £850	482.76	612.09	455.37	698.22	668.27	628.38
£850 +	497.96	684.78	499.59	751.40	783.87	688.08
All Groups	360.65	510.24	371.53	559.53	595.00	488.15

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 5.13 : Average tax change by household type and by income group.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
£0- £150	39.50	-47.40	48.85	-36.38	-138.50	10.93
£150- £250	40.25	-46.36	56.73	-47.70	-189.68	-3.58
£250- £350	62.98	-49.43	82.13	30.99	-204.53	-7.84
£350- £450	94.85	-40.06	104.59	1.85	-183.11	0.09
£450- £550	109.21	-28.87	126.04	39.34	-163.16	9.19
£550- £650	132.69	-8.90	142.74	70.13	-121.33	27.12
£650- £750	153.75	21.65	172.31	101.13	-110.83	56.49
£750- £850	200.12	64.32	194.43	139.65	-126.06	96.05
£850+	232.35	138.98	225.16	195.83	35.11	157.82
All Groups	75.77	-18.38	88.10	16.24	-157.55	14.52

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

Table 5.14 : Average percentage tax change by household type and by income group. (%)

%	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
£0 - £150	15.1	-7.3	18.0	-6.1	-21.2	7.6
£150-£250	15.3	-7.5	21.7	-7.9	-26.2	4.1
£250-£350	24.4	-8.5	31.6	-4.8	-27.4	3.6
£350-£450	36.6	-6.4	40.6	1.1	-23.4	5.0
£450-£550	46.6	-4.3	46.4	7.8	-20.5	6.6
£550-£650	54.5	-0.5	51.5	13.8	-15.5	9.7
£650-£750	61.5	5.5	63.2	18.9	-13.1	14.8
£750-£850	94.7	13.3	114.0	26.8	-15.7	24.5
£850+	128.6	27.3	83.6	37.9	-3.7	41.0
All Groups	30.7	-2.22	33.7	3.8	-20.5	7.9

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

leading to declining savings as the rising capital value of property and the resultant liability for Council Tax outstrips the relative number of adults.

The lowest Council Tax bills are paid by single adult households, marginally below those of single parents but all income groups of both groups experience the tax increases noted previously although the necessarily larger properties of single parents ensure that the losses for this group are consistently higher. Percentage losses for single adults in the £850+ group reach as high as 128% whilst even the lowest income bracket for Single Parents experience an 18% increase in local taxation. As hypothesised, two adult households pay more than single adult and parent households but less than nuclear family households and even less than multiple adults. Savings in the lower income groups diminish as income rises leading to increases in tax for the £350-£450 and higher income groups although increases only begin in percentage terms for the £650-750 group. This pattern implies that the effects of capital value rising with income overtake the effects of household type in determining changes to the level of local taxation. The very marginal average tax savings for Nuclear families, the largest type of household nationally, ensures that for most households the effects of the new tax are minimal, an important political objective for the government. Nevertheless, income groups up to the £350-£450 group make progressively smaller savings with losses for higher income groups peaking at £196 for the £850+ group.

It is interesting to note that the average tax level for all household across each income group varies in the household type to which it is closest. In the lowest income groups the average across all income groups is closest to the average for single parents but as income rises the average tends towards that for two adult households. This reflects the distribution of different types of household across the range of income groups. The consistency of the household type distributional pattern suggests that at this level of disaggregation the effect of type of household is a stronger influence upon Council Tax levels than influences such as regional differences in average capital value. This is not unexpected, the Council Tax grants a 25% reduction for single adult households and the increase in capital value between properties suitable for two adults as opposed to a family property is likely to exceed the effects on household bills of regional differentials in capital value.

Although subsequent sections analyse Council Tax as a proportion of income in greater detail, it is useful to briefly consider this issue at the national level for household types, the difficulties caused by the distribution of single adults making this analysis unhelpful in a regional disaggregation. Leaving aside the £0 - £150 income bracket, the percentage of income taken in Council Tax for household types confirms the previous patterns of tax distribution (Table 5.15), the proportion of income taken progressively declines as income

Table 5.15: Average percentage of income taken by Council Tax by household type and by income group. (%)

%	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
£0 - £150	7.07	13.15	6.86	22.30	8.70	10.63
£150-£250	3.14	4.28	3.32	4.32	4.55	3.73
£250-£350	2.25	2.91	2.36	3.24	3.24	2.81
£350-£450	1.84	2.31	1.87	2.65	2.74	2.33
£450-£550	1.52	1.95	1.57	2.30	2.39	1.99
£550-£650	1.34	1.72	1.37	2.01	2.12	1.76
£650-£750	1.20	1.59	1.26	1.82	1.85	1.63
£750-£850	1.17	1.48	1.09	~~1.68~~ 1.68	1.62	1.52
£850+	0.95	1.30	0.97	1.41	1.45	1.30
All Groups	2.51	2.37	2.87	3.05	2.76	2.63

Data Source : Nationwide Anglia Building Society
Calculations : Author

rises, showing Council Tax to be a regressive form of taxation. It is clear that the regressive trend of Council Tax is consistent across household types. Bearing in mind the perennial criticism of rates that they took too high a proportion of income from single adults, it is perhaps surprising that in terms of the percentage of income taken in local tax, the Single Adult groups fare better than all other types of household. This issue will be returned in subsequent sections. The next section summarises the preceding analyses and looks forward to the consideration of income group figures at the regional level for the reaggregated household types.

5.8.5 Regional and household type Council Tax bills - Summary : The preceding analyses have examined household Council Tax bills for different household types across a range of income groups living in different regions. These analyses have demonstrated how the distributional complexity of the Council Tax arises from an interplay of household type, the design of both Community Charge and Council Tax as local taxes, the geography of capital value, income levels as well as regional tax rates. These different influences operate with varying degrees of effect at different levels of income. It is apparent that the Council Tax imposes a tax burden which is regionally differentiated across household income groups but that the experience of shifting from the Community Charge is also differentiated by household type. Although households which comprise multiple adults living in very high capital value areas such as London face some of the very highest Council Tax bills, those bills provide very considerable savings on prior Community Charge bills. By contrast, single adult households, irrespective of income levels (and by implication, capital value of domestic property) living in very low capital value areas will experience substantial increases in local taxation, yet the percentage of income taken in Council Tax is lower than for other household types. Thus far the analyses presented have been either for income groups at the regional level or for different households across income groups at the national level. These analyses have been unable to provide an assessment of the geographical distributional equity of the Council Tax because of the implications for average bills of the uneven distribution of single adult household. The final sections of this chapter simultaneously investigates the distribution of the local tax burden across household types and across regions. This analysis allows some firm conclusions about the Council Tax's distributional equity to be drawn.

5.9 Council Tax for Regional Income Groups

The previous sections have presented analyses based on separate disaggregations for regions and for household types. These analyses have concluded that the Council Tax is less progressive than its presentation as a property tax might have suggested. However, the influence of household type has prevented this analysis being fully undertaken at the regional level. The following sections use income disaggregations based on regional reaggregated household types to allow this more detailed form of analysis to be undertaken.

5.9.1 **Regional income group modelling :** The difficulty of carrying out income group analysis at the regional group for individual household types lies principally in sample size. As Chapter Four noted, sample sizes of the five household types used in previous sections become too small to support analysis in terms of income groups and household types at the regional level. To sidestep these difficulties the five original household types have been reaggregated into two broader household types. Single Adult households combine the previous single adult and single parent groups. The Two or More Adults household type combines the remaining Two Adult, Nuclear Family and Multiple Adult household types. The sample sizes using these groups permit the more detailed examination of the Council Tax's distribution in terms of income groups, regional location and household type.

5.9.2 **Single Adult Council Tax bills by income group and by region** : Table 5.16 presents average Council Tax bills for the Single Adults household type regionally and in terms of income group. The sole failure of the reaggregated household types is in not producing ~~a figure for~~ any households in the North's £750 - £850 income group ~~since the sample size fell too low~~. Nevertheless, the regional distributional pattern almost acquires the consistency found in the previous household type analysis. Council Tax bills rise with income for all regions, although marginal inconsistencies exist for the two lowest income groups, particularly for higher capital value areas. The regional pattern found previously persists at each level of income with the highest bills in each income category found in the North West, in London and in the Outer Metropolitan Area.

It is noticeable that Single Adult households living in some higher value areas do not have bills as high as might have been expected. East Anglia bills are lower than the East Midlands, the South West average bill is lower than the North's (because of the region's high Band D tax rate) whilst the lowest average Council Tax for single adult households across all income groups is for the Outer South East region. This distribution is largely due to relatively low local tax levels in these areas - for example, the Outer South East average band D rate for 1993/4 is the second lowest behind East Anglia. Secondly, single adult households' occupation of smaller and therefore less valuable properties, in concert with the 25% reduction for single adult households, moderates the effects of the geography of capital value. As a result Single Adult households face lower Council Tax bills by living in smaller properties, in relatively low spending local authorities whilst still having relatively high levels of income.

The design of the Council Tax operates to disadvantage Single Adult households in low capital value areas. As Hills and Sutherland (1991) pointed out, even the capital value element of the Council Tax is not a strictly proportional tax on capital value. If the tax were to be fully proportional to capital value then as property value falls towards zero, tax

Table 5.16 : Average Council Tax bills by income group and by region for Single Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	337.62	337.64	366.18	393.42	443.00	452.67	426.07		583.10	358.07
Y&H	313.96	314.04	335.15	371.77	395.86	400.91	454.93	488.9	522.35	332.77
NW	347.22	350.73	386.85	430.72	476.51	501.13	502.46	532.16	617.08	380.58
EM	309.10	305.78	320.54	339.56	352.11	442.72	427.69	430.16	482.02	321.49
WM	315.23	326.05	352.92	393.42	432.77	430.26	483.35	518.65	554.02	353.42
EA	305.53	304.16	314.46	328.29	365.64	256.60	365.53	349.22	384.57	322.73
OSE	320.42	302.58	301.33	321.57	345.29	367.68	379.71	4013	435.66	319.79
OMA	374.30	356.32	352.40	368.95	369.75	406.07	434.91	448.99	487.55	373.44
Lond	413.11	404.96	391.11	404.14	401.48	421.42	437.85	498.20	514.52	413.00
SW	337.42	331.00	335.48	371.78	389.82	433.39	459.88	443.02	464.64	351.20
Engl	333.51	333.49	349.71	376.39	388.70	415.92	436.25	479.44	498.25	362.09

Data Source : Nationwide Anglia Building Society
Calculations : Author

liability should also tend to zero. In fact, liability falls so that Band A creates a 'threshold' Council Tax liability. This 'tilting' of tax liability implies a level of capital value below which tax liability is constant. Even though Single Adult households in the North and Yorkshire & Humberside might live in properties with average capital values below £40,000 there is no further reduction in tax liability other than the 25% reduction. This 'threshold' liability is also likely to exist in reverse in high capital value areas. In such areas capital values for properties occupied by Single Adult and other low income groups are unlikely to fall below a relatively high level. If regional income differentials are not proportional to these differentials in capital value, then the Council Tax is likely to be more regressive in these areas. The important distributional implication of both these scenarios is that the Council Tax ceases to be a property tax in these areas and becomes a flat-rate household tax, this issue is investigated further in a Chapter Seven. There is some evidence of this household tax in figures for absolute and percentage tax changes (Tables 5.17 and 5.18). In high capital value regions such as London, the tax increases for Single Adults remain similar at lower income levels and do not rise as fast as expected.

Closer examination of absolute and percentage tax changes (Tables 5.17 and 5.18) shows that all changes are positive, implying that all Single Adult households suffer a loss in the transition from Community Charge to Council Tax, irrespective of their income and regional location. Tax changes increase as income rises, as would be expected in a shift from a flat-rate tax to a tax on capital values. The average figures show that across all regions and all income brackets the tax burden has increased on average by over 30%. This figure is regionally differentiated, the highest average changes falling in the Outer Metropolitan Area and London whose residents face an average increase of over £109 or £125 whilst the lowest rise is for those in the East Midlands with a 14% rise. The highest percentage changes are for the £850+ group, particularly for those in London.

It is noticeable that the percentage tax change is far from constant in the lower income categories, where the factors leading to higher bills (relative to income) under Council Tax are concentrated. The effects of generally higher capital values, of regional 'threshold' capital values and previously low Community Charge (in the Outer Metropolitan Area) are most focused in these income groups. By contrast the percentage tax increases at higher income levels are more consistent across the regions but the pattern of regional capital value remains evident, London having a consistently higher percentage increase than lower capital value regions.

Table 5.19 shows the percentage of income taken in Council Tax for each of the disaggregated categories. This table allows interest to be focused on the regional distributional effects of the Council Tax. If Council Tax was a proportional tax with perfect resource and need equalisation and with a perfect reflection of the geography of

Table 5.17 : Average tax change by income group and by region for Single Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	32.00	32.46	58.18	86.19	121.25	141.10	119.19		260.97	51.06
Y&H	46.73	46.03	61.33	99.87	125.25	121.08	187.07	216.38	235.14	62.43
NW	21.21	27.77	64.93	113.87	158.22	181.09	184.74	224.01	299.59	58.71
EM	21.44	19.67	43.02	67.15	92.95	169.37	125.44	142.73	228.53	41.37
WM	25.60	34.27	61.77	105.21	143.04	145.00	189.24	228.39	263.40	62.71
EA	27.59	29.49	44.34	62.14	102.47	109.67	120.17	81.48	131.12	54.07
OSE	64.06	44.85	40.43	62.66	85.21	104.29	124.52	138.92	172.85	60.10
OMA	109.78	92.17	94.06	102.21	104.56	138.63	167.50	177.93	225.12	109.46
Lond	1270	118.42	100.32	113.50	114.12	130.98	151.15	218.85	251.82	125.22
SW	61.40	51.49	54.98	92.06	115.8	149.18	172.64	162.58	189.72	71.68
Engl	41.60	42.54	65.17	96.01	111.06	133.96	156.25	199.43	224.01	77.39

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

Table 5.18 : Average percentage tax change by income group for Single Adult households. (%)

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	11.1	11.3	19.7	28.7	37.8	45.6	39.8		81.4	17.1
Y&H	19.0	18.5	23.7	37.7	48.5	44.3	72.8	81.2	79.0	24.4
NW	7.3	9.3	20.7	36.9	51.5	57.2	60.5	73.9	95.0	19.1
EM	7.9	7.4	16.0	25.0	35.1	62.3	44.0	51.9	88.5	15.4
WM	9.1	11.9	21.5	36.7	49.3	51.8	63.4	78.4	91.8	21.8
EA	11.3	11.7	17.5	24.7	40.3	45.0	49.7	30.4	54.6	21.6
OSE	25.7	18.7	16.7	25.1	34.0	40.7	50.2	53.8	66.5	24.3
OMA	44.4	36.6	46.1	42.3	45.3	54.4	65.1	67.0	86.8	46.6
Lond	47.6	50.5	38.9	46.3	54.3	58.4	65.0	129.3	171.3	57.5
SW	22.6	19.0	20.2	33.7	42.8	53.7	60.2	59.9	72.6	26.3
Engl	15.8	16.2	25.2	37.1	46.6	54.1	61.7	97.0	120.5	31.1

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

capital value in regional income differentials, Council Tax would take a constant proportion of income in local tax irrespective of regional location. Variation from this ideal derives from either Band D Council Tax rates being higher or lower than for spending at SSA, or that Council Tax is not designed as a proportional tax. In other words, this table allows assessment of the Council Tax's overall progressiveness at the regional level. The geography of capital value, as has been noted, will ensure that there will be regional variations in average bills, irrespective of equalisation but the use of proportions of income taken in tax allows assessment of the degree to which income differentials reflect differentials in capital values. In addition, because the overall level of revenue raised changed little between Community Charge and Council Tax any change in the percentage of income taken in local tax (Table 5.20) should be due to the redistribution of the tax burden caused by the Council Tax's introduction.

Table 5.19 shows that the Council Tax is a regressive tax for the Single Adult households of the Nationwide Anglia data. The percentage of income taken by the Council Tax consistently declines as income rises, with the highest income groups paying an average of 0.96% of income in comparison with the 3.16% for the £150 - £250 income group about an average of 2.56% across all groups. The regional distribution also persists with the highest proportions of income at lower income levels are generally in the North West, the Outer Metropolitan Area and London. It is noticeable, however, that the lowest percentages are for East Anglia and the Outer South East.

Aside from the £0 - £150 income group, the highest proportion of income is taken from the £150 - £250 income category. For London residents in this income group 3.66% of income is taken, followed closely by the North West region with 3.36%. The lowest proportion is taken from the £850+ income group, the lowest being for East Anglia with 0.67%, followed by the Outer South East 0.72%. There are two distinct patterns, the first is that the North West, other than for the two lowest income categories, has a higher percentage than any other region for each income bracket, well above the similar neighbouring region of Yorkshire and Humberside. As has been already mentioned, the explanation for this difference lies partially in average Band D levels set by local authorities by preference and partially in the level of grant given by central government to the region's authorities in comparison to the grant given to other regions, which in itself raises or lowers Band D tax rates.

The second pattern is found in the higher capital value regions in which a relatively high proportion of income is paid in tax at low levels of income, a proportion which falls faster than elsewhere as income rises. The explanation lies in the existence of 'threshold' capital values and therefore Council Tax liability. The average capital value of property in London for single adults is £69,201 and £79,414 for single parents but £35,534 and

Table 5.19 : Average percentage of income taken by Council Tax by income group and by region for Single Adult households. (%)

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	6.01	3.26	2.41	1.94	1.75	1.46	1.15		1.16	3.11
Y&H	5.57	3.03	2.21	1.83	1.56	1.30	1.25	1.15	1.00	2.90
NW	7.27	3.36	2.53	2.12	1.88	1.61	1.38	1.29	1.21	3.28
EM	6.36	2.91	2.10	1.67	1.39	1.43	1.18	1.04	0.94	2.66
WM	5.56	3.08	2.30	1.94	1.71	1.38	1.33	1.26	1.09	2.74
EA	12.22	2.89	2.01	1.62	1.44	1.16	1.02	0.84	0.73	2.52
OSE	8.40	2.80	1.93	1.58	1.34	1.19	1.05	0.99	0.84	2.12
OMA	8.44	3.31	2.25	1.79	1.45	1.31	1.20	1.09	0.93	2.08
Lond	7.63	3.66	2.47	1.96	1.56	1.36	1.21	1.20	0.99	2.03
SW	9.39	3.12	2.17	1.84	1.52	1.40	1.28	1.07	0.85	2.76
Engl	7.02	3.16	2.26	1.84	1.52	1.34	1.21	1.16	0.96	2.56

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 5.20: Average change in percent of income taken in local tax by income group and by region for Single Adult households. (%)

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	0.57	0.31	0.37	0.42	0.48	0.45	0.32		0.51	0.38
Y&H	0.81	0.44	0.40	0.49	0.49	0.39	0.51	0.51	0.46	0.49
NW	0.58	0.26	0.42	0.56	0.62	0.58	0.51	0.54	0.58	0.40
EM	0.48	0.18	0.27	0.33	0.37	0.55	0.35	0.35	0.45	0.27
WM	0.47	0.32	0.40	0.51	0.57	0.47	0.52	0.55	0.51	0.40
EA	0.99	0.28	0.28	0.30	0.40	0.35	0.34	0.20	0.25	0.33
OSE	1.46	0.41	0.26	0.30	0.33	0.34	0.34	0.34	0.33	0.36
OMA	2.45	0.85	0.60	0.50	0.41	0.45	0.46	0.43	0.43	0.58
Lond	2.23	1.07	0.63	0.55	0.44	0.42	0.42	0.53	0.48	0.59
SW	1.69	0.49	0.35	0.45	0.45	0.48	0.48	0.40	0.34	0.51
Engl	0.91	0.40	0.42	0.47	0.43	0.43	0.43	0.48	0.44	0.46

Data Source : Nationwide Anglia Building Society
Calculations : Author

£37,077 respectively in the North. The implication is that households in higher value areas face higher local tax bills which regional differentials in earnings do not compensate for at lower income levels. As income rises the proportion of income taken in tax falls as the relationship between income and capital value is restored.

Although the pattern of income taken in Council Tax suggests that the tax is regressive, the pattern of tax change from the Community Charge implies that the Council Tax actually introduced a greater degree of progressiveness into local taxation (although all income groups experienced an increase in tax). A comparison between the proportion of income taken by the two taxes by income group on a regional basis reveals the extent of the change in the equity of the local tax system at the regional level. In terms of the progressiveness of a tax, comparisons between different types of local taxation are problematic to make since they form only one part of a complex fiscal system. Since the overall burden of taxation changed little at the household level between the final year of the Community Charge and the introduction of the Council Tax it is possible to make some comments regarding the redistribution of the local tax burden between income groups. Since all values are positive, Table 5.20 confirms that the Council Tax puts a greater burden on Single Adult households than Community Charge. It would be surprising were this not to be the case, single adult households were those which were likely to have gained most from the Community Charge, with the introduction of Council Tax as partially a tax on property value it was equally likely that these households would face increased taxation. The change in average proportion of income taken in local tax is not constant however. Since Council Tax is partly a tax upon capital value and having found a broad correlation between household income and capital value it would be expected that the largest increases in the proportion of income taken in tax would be for those in the highest income brackets. However, leaving aside the £0 - £150 income group, at the middle and lower levels of income Table 5.20 suggests that the introduction of the Council Tax marginally increases the progressiveness of the local tax system - as income rises, the change in percentage taken in local tax increases. But at higher levels of income the rate of ~~income~~ change declines. In other words, though Council Tax takes a larger proportion of income than Community Charge for Single Adult households, it is more progressive at middle and lower income levels than at higher levels. But this pattern is a composite of more complex regionally differentiated patterns.

The first pattern is, as would be expected, that higher capital value areas have generally higher changes than lower value ~~area~~ areas, particularly at lower levels of income. The second pattern shows that in lower capital value regions (e.g. East Midlands) there is a relatively progressive trend of changes in the proportion of income taken in local tax generally increasing with income. In the higher, but not the highest capital value areas (e.g. South West), changes are broadly constant, implying that in these areas Community Charge and

Council Tax are equivalently regressive. However, in the high value areas (e.g. Outer Metropolitan Area and London) the change appears to decline as income rises showing that relative to income, the proportional tax increases actually fall, suggesting that for these areas and for this type of household the Council Tax is actually more regressive than Community Charge. The design of the Council Tax seems to play a significant role in creating this regressiveness, the banding system ensures that the Band H's tax liability is limited to just three times the liability of a Band A property despite the value of a Band H property being at least eight times that of a Band A property. As a result, tax liability in terms of tax per pound of property value fall as property value increases. The logical extension of this facet of the Council Tax is that regressiveness is automatically created as soon as the relationship between capital value and income exceeds 3 : 1. This is most likely to occur in the higher value regions. The following section presents an equivalent analysis for the Two or More Adult household type.

5.9.3 Two or More Adult Council Tax bills by income group and by region :
Table 5.21 shows the average Council Tax bills for Two or More Adult Households by region and by income group. The general patterns shown here meet the expectations set out in previous sections - average bills are substantially higher than for Single Adults, the level of Council Tax increases with income and these patterns are regionally differentiated.

The idea of regional capital value 'thresholds' can be considered again in the context of Two or More adult households. In lower value regions it is noticeable that there is a upward progression in household bills which begins at much lower levels of income than in higher capital value regions. In London for example there is no evidence of a trend of increasing bills until the £650 - £750 income bracket, the same is true of the Outer Metropolitan Area, whilst in the lower value region of the Outer South East the upward trend starts at a slightly lower level of £450 -£550. By contrast the upward progression for the East Midlands is continual. If capital values do not fall below a relatively high level in the South East, producing a 'threshold' capital value, an equivalent local tax 'threshold' is created which applies irrespective of income. This level of taxation will be above that found for households with similar levels of income in lower value areas of the country. The evidence of London and the Outer Metropolitan Area regions supports the notion of a capital value threshold, these regions have the two highest average Council Tax bills for all regions for the lowest four income brackets.

The pattern of tax change for Two or More Adult households should show a transition from gains for lower income groups towards progressively higher losses for those households in the higher income groups, this pattern should also be regionally differentiated. Table 5.22 shows a broad confirmation of this pattern, the average for England showing that households in the £150 - £250 income bracket gain by an average

Table 5.21 : Average Council Tax bills by income group and by region for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	465.46	461.33	489.85	524.13	577.37	618.42	689.77	719.35	825.49	529.22
Y&H	437.03	437.93	461.33	494.39	541.57	583.85	630.01	696.61	721.38	498.03
NW	493.57	502.72	523.24	566.98	631.47	704.96	760.37	830.23	843.53	580.69
EM	425.01	431.05	440.54	464.86	500.23	551.86	627.03	651.31	703.51	478.08
WM	457.52	463.21	482.90	515.79	558.50	605.73	680.74	703.75	749.43	526.03
EA	468.60	441.45	448.44	460.50	481.22	535.23	551.34	598.66	620.07	482.87
OSE	471.24	447.86	447.11	449.61	465.65	504.83	549.82	587.26	640.21	481.57
OMA	523.15	522.07	530.95	528.97	520.69	540.24	591.59	637.19	712.78	558.10
Lond	596.93	584.39	561.73	566.23	551.29	550.25	575.00	610.46	717.14	582.11
SW	500.06	485.91	479.54	500.73	536.54	588.11	621.67	638.57	709.62	521.98
Engl	474.27	471.71	485.09	508.15	534.92	562.72	604.77	643.20	714.18	532.13

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 5.22: Average tax change by income group and by region for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	-61.90	-63.93	-62.61	-46.43	-13.96	76.05	76.05	129.35	175.72	-36.12
Y&H	-42.33	-42.58	-40.72	-16.38	8.08	44.32	84.49	141.53	150.89	-12.18
NW	-54.13	-63.56	-55.05	-32.91	5.67	73.86	131.37	99.85	202.44	-16.57
EM	-69.67	58.31	-53.46	-54.46	-32.99	9.16	71.03	99.86	145.02	-35.56
WM	-72.30	-75.25	-64.21	-41.40	-13.71	31.48	109.07	125.16	174.05	-30.27
EA	-25.87	-56.46	-47.92	31.06	-31.38	11.38	41.05	79.68	105.48	-20.07
OSE	-21.73	-44.41	-40.84	-32.72	-29.38	-9.25	28.17	59.82	112.44	-15.85
OMA	-12.77	9.39	6.74	14.97	18.30	17.31	52.85	102.10	161.35	34.64
Lond	87.20	3.97	-3.29	-3.71	-20.95	-21.16	-4.86	35.12	135.39	8.20
SW	-23.72	-19.42	-22.59	-12.91	1.73	34.50	74.28	89.14	146.92	1.18
Engl	-44.74	-50.51	-43.59	-25.84	-9.21	11.98	45.38	85.76	147.75	-7.41

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

£44.74 whilst the £850+ households suffer an average loss of £147.75. It is easier to discern regional pattern of tax change by examining Table 5.23 which shows the average percentage tax change. The most important feature is that, in comparison with those for Single Adults, the changes here are relatively marginal for the overwhelming majority of households. Only at high levels of income do changes approach those found for Single Adults.

The idea of capital value thresholds is further supported here. In London, Two or More Adult households face increased taxation overall but with savings peaking at 1.58% for the £550 - £650 income group before tailing off into losses at higher income levels. The explanation for this pattern is that the high 'threshold' capital value and prior Community Charge levels produced little downward shift in local tax. Since the relationship between the number of adults and household income is not strictly linear, as income rises the level of Community Charge does not necessarily rise proportionally. As a result the savings for Two or More Adult households in this the highest capital value region do not occur in the lowest income households which face high Council Tax bills relative to income but rather at higher levels of income where the relationship between income and the number of adults is weaker and where the effects of Council Tax relative to income are minimised. At income levels above this point the level of Council Tax on higher value properties increases thus negating savings made as the relationship between income and number of adults becomes weaker.

The relatively low capital values ensure that the largest tax gains made are to be found in the Midlands and in the northern regions, here the pattern of decreasing gains and then increasing losses is evident. Households in the Outer South East face similar levels of tax savings at lower levels of income as those households living in Yorkshire and Humberside through the combination of Yorkshire and Humberside having generally lower external support whilst the Outer South East has average levels of capital values and previously relatively low Community Charge bills.

Table 5.24 shows the percentage of income taken in local tax by Council Tax for different income groups on a regional basis for Two or More adult households. Table 5.24 confirms firstly that although Council Tax bills rise with income, the tax represents a lower proportion of income for households with higher income groups than lower income groups, making Council Tax a regressive form of taxation. Interestingly, despite the implications of shifting from Community Charge the proportion of income taken for Two or More Adult households is consistently higher than their Single Adult counterparts. Secondly, in relation to income at lower levels of income, London and the Outer Metropolitan Area pay a higher price for their residence in these regions. It is noticeable though that as income rises the relative proportions rise for lower value regions, especially for the North West. It is interesting to note that as with Single Adult Households,

Table 5.23 : Average percentage tax change by income group and by region for Two or More Adult households.

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	-10.8	-10.9	-9.9	-7.1	-1.7	2.5	12.4	21.4	28.4	-5.6
Y&H	-7.1	-7.1	-7.0	-2.0	2.4	9.6	16.1	26.6	29.5	-1.4
NW	-8.0	-9.2	-7.9	-5.2	1.5	12.3	21.3	32.3	32.2	-1.9
EM	-12.7	-11.0	-10.1	-10.0	-6.1	2.0	13.6	18.1	26.6	-6.6
WM	-13.2	-13.4	-11.3	-7.2	-2.2	5.8	19.5	22.5	31.2	-2
EA	-5.8	-10.4	-8.7	-3.3	-5.3	3.3	9.6	17.0	23.1	-3.0
OSE	-3.8	-8.0	-7.4	-6.0	-5.2	-0.8	6.7	12.9	22.7	-2.4
OMA	4.7	4.8	3.1	4.7	3.6	5.0	11.4	20.5	31.2	8.3
Lond	28.5	2.8	1.7	2.0	-1.5	-1.6	1.8	10.2	34.3	4.9
SW	-3.9	-2.2	-3.0	-1.3	1.2	6.7	14.0	17.7	26.9	1.2
Engl	-7.1	-8.2	-7.0	-3.7	-0.6	3.4	9.6	17.3	30.1	-0.2

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

Table 5.24 : Average percentage of income taken by Council Tax by income group and by region for Two or More Adult households. (%)

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	11.37	4.26	3.12	2.55	2.25	1.99	1.91	1.73	1.58	3.05
Y&H	7.33	4.04	2.94	2.41	2.11	1.89	1.74	1.69	1.39	2.82
NW	17.92	4.60	3.34	2.76	2.46	2.28	2.10	2.01	1.63	3.39
EM	7.05	3.94	2.81	2.26	1.95	1.78	1.75	1.57	1.34	2.59
WM	23.76	4.24	3.07	2.50	2.18	1.96	1.88	1.70	1.44	3.14
EA	8.45	4.00	2.87	2.22	1.87	1.74	1.53	1.45	1.17	2.37
OSE	9.73	4.05	2.83	2.16	1.81	1.63	1.52	1.42	1.21	2.16
OMA	54.43	4.72	3.33	2.53	2.01	1.74	1.64	1.54	1.33	2.33
Lond	46.88	5.27	3.54	2.70	2.12	1.77	1.59	1.47	1.33	2.16
SW	11.18	4.43	3.04	2.43	2.08	1.90	1.72	1.54	1.36	2.68
Engl	17.18	4.31	3.08	2.46	2.07	1.82	1.67	1.55	1.34	2.66

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 5.25: Average change in percent of income taken in local tax by income group and by region for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	0.06	-0.59	-0.40	-0.23	-0.56	0.37	0.21	0.31	0.34	-0.26
Y&H	-0.73	-0.40	-0.26	-0.08	-0.03	0.14	0.23	0.34	0.29	-0.15
NW	-1.02	-0.58	-0.35	-0.18	-0.18	0.24	0.36	0.48	0.39	-0.20
EM	-1.28	-0.53	-0.34	-0.27	-0.13	0.03	0.20	0.24	0.27	-0.26
WM	-0.72	-0.70	-0.41	-0.20	-0.06	0.10	0.30	0.30	0.33	-0.25
EA	-0.17	-0.51	-0.30	-0.15	-0.13	0.04	0.11	0.19	0.19	-0.15
OSE	-0.19	-0.40	-0.26	-0.16	-0.12	-0.03	0.08	0.14	0.21	-0.12
OMA	4.94	0.08	0.43	0.70	0.03	0.06	0.14	0.25	0.30	0.11
Lond	9.56	0.03	-0.02	-0.14	-0.08	-0.07	-0.01	0.08	0.24	0.02
SW	-0.41	-0.18	-0.14	-0.06	0.00	0.11	0.20	0.21	0.28	-0.04
Engl	-0.12	-0.46	-0.28	-0.13	-0.37	0.04	0.12	0.21	0.27	-0.11

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

households in the Outer South East and East Anglia pay a consistently lower proportion of income in Council Tax than most other regions, for reasons noted previously.

Table 5.25 shows the change in percentage of household income taken in local tax for Two or More Adult households. The most striking impression is (leaving aside the £0 - £150 income group) that tax changes in proportion to income are very marginal, the most significant shift is a saving of 0.7% for the East Midlands £150 - £250 income group. Overall, the pattern of change resembles that found for Single Adults, marginal savings or losses progressively declining into greater losses as income rises. As before, the regional pattern is also evident in that losses begin at higher levels of income for lower capital value areas whilst the Outer Metropolitan Area households on average make no savings at all.

5.10 Conclusion

This chapter has provided an analysis based upon the results of modelling the introduction of the Council Tax upon the Nationwide Anglia data's 75,000 households. From these results and from other authors (Hills and Sutherland, 1991; Giles and Ridge, 1993) it has become clear than in the first year of the Council Tax's operation, with the cushion of the transitional relief in place and with local government raising roughly 6% less in local tax than in 1992/3, almost two thirds of households experienced a reduction in their local tax bills. Within this national picture of reduced taxation is a complex pattern of distribution of the local tax burden in which single adult households face significantly increased bills and the experience of other types of households is sharply influenced by regional location.

The initial contexting analysis of the Council Tax's distribution showed that the tax's burden is regionally differentiated with higher bills in areas with higher capital values and lower bills in areas of low capital value. However, capital value is not the sole factor which operates geographically, as the average bills for Yorkshire and Humberside and for the North West show. The grant system and regionally differentiated tax rates also play a part in the Council Tax's distribution over space. These preliminary analyses have also shown that the experience of the Council Tax's introduction is differentiated by household type. Whilst single adult households experience considerable increases in local taxation under Council Tax, multiple adult households enjoy substantial gains. The extension of these analyses to the regional level has displayed how the various influences on the Council Tax's distribution operate with different effects for different households and regions. The distributional analysis in terms of income groups has confirmed the conclusions made by other authors in suggesting that overall the Council Tax is a regressive form of taxation. The analyses here in terms of household type in different regions have suggested that the degree of regressiveness is actually geographically distributed - in some regions, the Council Tax has been shown to be more regressive that the Community Charge. The regional burden of the Council Tax for different household types across income groups

suggests that although the geography of income is reflected in (or itself reflects) the geography of capital value, the two geographies are not coincident. The effect of this is to increase the Council Tax's regressiveness, particularly in higher capital value areas.

The Council Tax's public perception as a broadly fair form of property tax is therefore erroneous, the Council Tax is a regressive tax by design. The regressiveness of the tax is compounded by the existence of the Council Tax as a 'household' tax,discussed further in Chapter Seven. As Chapter Three pointed out, the Council Tax has no explicit rationale for its design but in terms of an ability to pay tax, the Council Tax appears to fail badly. The second implication of the chapter's conclusions is in regard to the tax's horizontal equity. The analyses presented here have suggested that similar households, with similar levels of income and types of property may well face differences in local tax bills which are not reflected in differing levels of service from their local authority. The principle of horizontal equity demands that households of similar circumstances should be treated equally by the fiscal system, irrespective of their location. The differentials in local tax bills which have been modelled here suggest that the principle of horizontal equity is compromised by the Council Tax. A final conclusion which can be drawn from this chapter is the necessity for analysis of the distribution of taxation, especially local taxation, to be undertaken below the national level. None of the distributional analyses below the national level presented here have been undertaken previously. The conclusions reached from those analyses suggest that there is a great diversity of experience of the Council Tax which is entirely masked by national level analysis. One of the implications of this is that analyses, particularly that of local taxation, which are undertaken solely at the national level are likely to be significantly incomplete.

This chapter is the most extensive of the empirical analyses in this thesis and as such is designed to form a context and base of departure for the following chapters, in particular for the discussion of the interaction of the Council Tax and the grant system in the next chapter.

Chapter Six

Council Tax and the Resources Effect

6.1 Introduction

Chapter Five presented a detailed analysis of the distributional impact of the Council Tax at the household level. This chapter moves on to consider in detail the implications of the resources effect both at the household and local authority levels. The first section outlines how the resources effect arises from the interaction of the Council Tax and the equalisation mechanism of the Revenue Support Grant. The second section briefly notes the method used to model the resources effect. The empirical analysis of the resources effect is initially in terms of Band D tax rates at the both regional and local authority levels. In the final sections the distributional implications of the household Council Tax bills inferred by the Band D tax rates are examined.

6.2 Council Tax, Gearing Ratios and the Resources Effect

From the Council Tax's inception, the tax has been widely criticised for the difficulties introduced by the small proportion of the total of local government revenue the tax raises (e.g. Giles and Ridge, 1993). Until the introduction of the Community Charge, rates, including non-domestic rates, raised roughly 30% of local government's revenue in England.

The Community Charge legislation removed non-domestic rates from local authority control and renamed them the Uniform Business Rate (also known as National Non-Domestic Rates). Under Uniform Business Rate central government sets a national tax rate for all business ratepayers and distributes the revenue to local authorities in proportion to their resident population. Distribution on the basis of resident population itself implies a substantial redistribution of taxable resources (in comparison with non-domestic rates) which is beyond the scope of this chapter but it is noticeable that the choice of resident population rather than the number of Band D equivalent properties (which would be more in keeping with the design of the Council Tax) serves to increase range of taxable resources which must be equalised for by the grant system. This reform meant that local authorities lost a major source of locally determined revenue and received in its place the equivalent of an assigned revenue from central government.

The effective nationalisation of a local tax resource had substantially reduced the proportion of revenue which local authorities raised from local sources, correspondingly increasing local government's reliance on central government sources. This was compounded by the

largely political measure to reduce 'headline' Community Charge rates by Norman Lamont in the 1992 budget. The-then Chancellor used part of the revenue raised by the increase in VAT to 17.5% to fund a general reduction in the Community Charge rates set by each local authority by £150. On its introduction, the Council Tax raised only 14% (on average) of local revenue, the remainder being derived from Revenue Support Grant, Uniform Business Rates, specific grants and trading revenue. In the Council Tax's Consultation Paper (1991a), rather than proposing to confront the difficulties created by this funding imbalance the government pledged itself to retain it, noting :

> 'The last Budget brought about a substantial shift in the balance [of funding between local and central revenue sources]. We now raise from local residents only about 14 per cent of what councils spend. The Government propose broadly to maintain that level under the new council tax; and to ensure that the extra support from central funds results in lower bills, not higher spending.'
>
> Department of Environment, 1991a, Preface.

This approach contrasts strongly with the Layfield Report's conclusion that for adequate local accountability and for the protection of genuine local autonomy, local authorities should raise at least 60% of their revenue from their own, local sources (Layfield Committee, 1976). The government's approach also highlights its willingness to control local tax rates through the grant system and through the use of capping powers.

Although the level of local domestic taxation has not changed as substantially between rates, Community Charge and Council Tax as the loss of non-domestic revenue suggests, the reforms have significant implications at the domestic tax level. The concerns regarding the proportion of locally raised revenue centre on the issues of gearing and what Giles and Ridge (1993) term the 'resources effect'. Both of these effects arise from the equalisation process of the Revenue Support Grant. As Chapter Three noted, the Revenue Support Grant is designed to equalise for differences both in local authorities' ability to raise revenue from local sources (resource equalisation) and for their need to spend (need equalisation). Standard Spending Assessment system is intended to provide an objective measurement of need to spend whilst resources are measured through the number of Band D equivalent properties in each local authority. The combination of both these measures allows central government to allocate each local authority a level of grant which is theoretically sufficient to fund local authority spending at Standard Spending Assessment (SSA), the level of expenditure required to provide a notionally 'standard' level of service. At this level of expenditure each local authority should be able to set a national 'standard' Band D Council Tax rate. The government views any variation from this tax rate as being

either due to inefficiency or to locally expressed wishes for greater local spending. In either case, the funds for this additional expenditure should, in the government's view, be raised from local sources of revenue without recourse to additional central funds. The crucial point is that equalisation only occurs for expenditure incurred at the national 'standard' Band D tax rate, any expenditure made above this level must be funded in the absence of central funds. This is in contrast to previous grant systems under which various mechanisms were used to discourage spending above government assessed levels by e.g. progressively withdrawing central contributions to local spending, known as grant tapering.

Because the proportion of revenue raised locally is low, spending above SSA is highly geared in comparison with that made at or below SSA. The effect of gearing is that if a local authority with a gearing ratio matching the England average of 7:1 increases its spending above SSA by 10%, the revenue raised by Council Tax has to increase by 70%. One of the implications of the geographies of need to spend and of taxable resources (implicit in the geography of capital value), is that gearing ratios will also be geographically distributed. In 1993/4 gearing ratios at the local authority level ranged from 2:1 to 12:1 (Giles and Ridge, 1993). These extremes of gearing lead to considerable variation in the percentage rises in local bills. In the case of the ratios noted above, increases in revenue raised from Council Tax will vary from 20% to 120% for an proportionally equivalent 10% increase in spending above SSA. There is debate over the significance of gearing at the household level. Some commentators such as Giles and Ridge (1993) suggest that since a tax increase per dwelling (as opposed to per Band D equivalent) in spending over SSA will remain constant in absolute terms, irrespective of gearing ratios, gearing itself is unimportant. However, the analysis of the previous chapter suggests that an increase in taxation of e.g. £100 per dwelling, will represent a different proportional increase in local bills depending upon household type, geographical location and income group.

Giles and Ridge (1993) attach more importance to the closely related issue of the 'resources effect'. The resources effect operates in a similar manner to gearing but the implications are focused more at the local authority level. The resources effect arises from the Revenue Support Grant's partial equalisation. Equalisation is partial because needs and resources are only equalised for spending at Standard Spending Assessment, implying that differences in resources and need to spend are unequalised for spending above Standard Spending Assessment. Significantly, the ability to raise revenue for additional expenditure above SSA will therefore differ at the local authority level. Because local authorities in areas of high capital value have greater taxable resources, these authorities are able to raise the same level of additional revenue at a lower increase to their Band D tax rate than poorly resourced local authorities. Giles and Ridge (1993) found that for 1993/4 an addition to

each dwelling's Council Tax of £100 led to increases in Band D tax rates across England which varied from £85 to £174. These differences in ability to raise additional revenue would be less noticeable (though not necessarily less important in terms of taxation philosophy) if Band D rates were regionally clustered but, as previous analyses have shown, this is not necessarily so. Although historic patterns of tax rates and the geography of capital value ensure that regional differences in tax rates exist, significant variations also exist at the sub-regional level. Giles and Ridge (1993) found that although the range of bills for an increase in bills per dwelling of £100 was attenuated at the regional level, significant ranges still existed. For local authorities in the South East (including the Outer Metropolitan Area) increases in Band D tax rates still ranged from £85 to almost £150.

The implication of the 'resources' effect is that the Council Tax is horizontally inequitable for spending above SSA. Inequity arises from similar households (potentially) being treated differently purely on the basis of their location. This problem is likely to be reflected at different scales. It is possible that significant differences in treatment by the local tax system will occur at an intra-urban scale. A local authority which encompasses predominately higher capital value, suburban areas will be able to fund additional expenditure at a significantly lower Band D rate than a neighbouring, more central local authority whose tax base comprises lower capital value properties. The evidence of the previous chapter suggests that because of the broader geography of capital value these differences will also exist at a regional level. Before considering the implications of the resources effect in terms of modelled Band D tax rates, the following section briefly outlines the approach taken to modelling the issues highlighted in this section.

6.3 Modelling the Resources Effect

The resources effect has been modelled in this thesis on the basis of all local authorities raising an additional £100 from each dwelling in their area for taxation above their Standard Spending Assessment Band D tax rate. This approach to modelling the resources effect is useful since it both removes the effect of historic differences in local authority tax rates as well as simulating all authorities raising an equal level of additional revenue relative to the number of properties in their area. The inferred additional Band D rate for each local authority was calculated by dividing the total of additional revenue to be raised (the number of taxable dwellings in each local authority multiplied by 100) by the number of Band D equivalent properties. The number of equivalent Band D properties indicates the size of each local authority's taxbase, a local authority with a large number of Band A and Band B properties will have fewer Band D equivalent properties than an authority with fewer actual properties but whose properties principally fall into Bands F, G and H. The household bills inferred by the additional Band D rate for each local authority were then calculated as with previous models.

The calculation of Band D rates was based on information from CIPFA (CIPFA, 1993; CIPFA, 1994), which are in turn based on the figures used to calculate grant distribution. The figures for Band D equivalent properties and for the actual number of dwellings in each local authority relate to 1994/5, the latest year for which figures are available. Because the analysis based on this model makes no direct comparisons with results in other chapters, use of figures for 1994/5 does not pose any analytical difficulties but allows the analysis to reflect the current situation. This technique provides accurate inferred Band D tax rates for additional expenditure, allowing greater reliance to be placed upon the modelled bills based on the Nationwide Anglia dataset. It should be noted that it is not possible to infer a relationship between the distribution of taxable resources and present regional tax rates. Because central government has exercised close control of local tax rates, especially in the Council Tax's first year, in order to prevent substantial spending above SSA, the resources effect will not be immediately apparent. In addition, a number of other influences upon regional tax rates will have had greater immediate impacts, particularly the instability in the local finance system induced by the removal from local authority control of non-domestic rates, as well as changes in local authority responsibilities (e.g. in 1993/4 local authorities were no longer responsible for Further Education funding). The resources effect is therefore likely to be a potential influence upon tax rates in the future, particularly if central government's influence on local spending levels is relaxed.

6.4 Resources effect - Modelled Results

The following section considers the modelled Band D tax rates for an additional tax of £100 per dwelling both for England and at the regional level. Because the calculations are based on the actual numbers of chargeable properties and Band D equivalent properties for each local authority the variations in inferred Band D tax rates for the additional spending is entirely due to variations in resources rather than due to variations in regional tax rates. This allows direct comparisons to be made across the regions. Having considered Band D tax rates, the analysis then considers the household bills inferred by the additional taxation.

6.4.1 **Inferred Band D tax rates** : Table 6.1 shows national and regional average Band D tax rates for a £100 increase per dwelling in Council Tax above SSA. If the capital values inferred by Band D perfectly reflected the distribution of capital value across English local authorities, the England average Band D tax rate for an additional £100 in Council Tax per dwelling would be £100. The average for England is £127.15, suggesting that the average value of properties across England is below the capital values inferred by Band D. This accords with the suggestion that average capital values were below the Valuation Office's preliminary estimates which were used as the basis for the definition of the Council Tax's capital value bands. Below the national level, the Band D tax rates (Column 1) are clearly regionally distributed, reflecting the geographical distribution of taxable resources. The pattern is similar to that found in the previous chapter's regional

Table 6.1 : Average regional Band D Council Tax rates and Bills for £100 per dwelling tax increase above SSA.

	Band D tax rate	Maximum Band D tax rate	Minimum Band D tax rate	Average Council Tax Bill
North	149.30	166.00	113.00	111.58
Yorks & H'side	141.79	170.00	107.00	107.88
North West	141.39	171.00	105.00	115.25
East Midlands	138.62	166.00	110.00	109.89
West Midlands	135.33	165.00	106.00	111.93
East Anglia	131.02	160.00	92.00	115.89
Outer South East	119.65	152.00	69.00	102.63
Outer Met. Area	105.97	139.00	62.00	100.62
London	114.48	141.00	91.00	104.49
South West	124.24	154.00	100.00	109.31
England	127.15	171.00	62.00	107.88

Data Source : Nationwide Anglia Building Society
Calculations : Author

disaggregations of Council Tax bills. Local authorities in the North, North West and Yorkshire and Humberside set the highest tax rates whilst those in the Midlands are marginally lower. Band D tax rates decline from this peak for East Anglia and South West whilst the lowest tax rates are found in the South Eastern regions. Regional tax rates vary from £142 for the North West to £105 for the Outer Metropolitan Area. These differences in tax rates across England imply striking differences in local tax bills for an identical total increase in taxation per dwelling. In terms of individual local authorities, a household living in a Band D property in Thurrock faces an additional tax liability of £62 but an identical household in Liverpool faces an equivalent bill of £171. Since local authorities with low resources also tend to have high need, local authorities with needs which are left unequalised by the Standard Spending Assessment system will be those least able to raise local revenue to fund additional expenditure.

The range between the maximum and minimum tax rate figures for individual local authorities within each region suggest that not only is the additional tax burdens for spending above Standard Spending Assessment unevenly distributed across regions but it is also unevenly distributed within regions. The widest range of tax rates is in the Outer South East with Hastings setting a tax rate of £152 whilst an equal increase in taxation produces a rise in Band D tax rates of £69 for Tendring in Essex. The widest range of tax rates occurs in this region since it comprises a relatively heterogeneous set of local authorities, stretching from the high value, low need suburban, Outer Metropolitan commuter belt to the relatively low value, high need East Kent coastal areas such as Thanet (£138) and Rochester-on-Medway (£132). The regional maximum and minimum tax rates clearly illustrate how the resources effect has a potentially significant influence upon local authority taxation and spending within individual regions. The London Boroughs of Richmond-upon-Thames and Merton offer a striking example of how the resources effect induces horizontal inequity at the sub-regional level. This example is particularly apt since the boroughs are almost adjacent, separated only by Kingston-upon-Thames. Richmond's inferred Band D tax rate is £91 whilst Merton's is £139. Since the average capital value for properties in London falls into Band F, the different tax rates imply that an average household in Merton pays an additional Council Tax of £200.78, whilst an identical household in Richmond pays £131.44, a difference of £69.34 for the same level of additional taxation for spending above SSA.

Having considered Band D tax rates at the national and regional levels, the following section examines the distributional consequences of the household level Council Tax bills which those tax rates imply.

6.4.2 **Modelled additional Council Tax bills** : The household bills were modelled in the same way as those in the previous chapter. In order to assess the impact of the

resources effect abstracted from the influence of differences in regional tax rates, the Band D tax rates for additional spending have not been added to the existing Band D tax rates set by local authorities for 1993/4. However, the 25% reduction for single adult households was applied. Because the distribution of these households is consistent regionally, the effect of their inclusion will be evenly distributed and will affect regional averages equally. Although the calculation of inferred Band D tax rates was based on a notional assumption of a £100 per dwelling increase in Council Tax, the actual distribution of the additional tax burden at the household level is likely to be more complex. The evidence of the previous chapter has shown that household level bills are influenced by capital value banding, household income and type as well as regional variations in capital value.

The analyses undertaken in this and the previous chapter have allowed much greater consideration than previous analyses of the geographical distributional issues arising from the introduction of the Council Tax. The following section considers in particular the issue of the degree to which the resources effect produces a regionally differentiated contribution to the Council Tax's regressiveness for spending above SSA. This issue hangs upon the balance between two influences upon the tax's distribution. The first influence is the capital band of a property - being resident in a lower banded property will tend to reduce a household's Council Tax bill. The second influence is the resources effect - residence in a low resourced authority will serve to increase a household's Council Tax bill. Both of these influences are related to the relationship between capital value and income. If there is a close correlation between regional variations in capital value and income then the Council Tax's regressiveness for spending above SSA will be consistent across all regions. However, if the strength of this relationship varies geographically then the regressiveness of the Council Tax will also be geographically distributed. The previous chapter suggested that in high value areas, 'threshold' capital values exist. In these circumstances, relatively low income groups occupy properties with capital values higher than those implied by the more usual relationship between income and capital value. This leads to the imposition of Council Tax bills on lower income groups which are proportionally higher than for similar income groups in other parts of the country. As Hills and Sutherland (1992) noted, if the relationship between income and capital value exceeds 1 : 3, strong regressiveness can occur. Importantly, those in receipt of income support are unaffected by this potential accentuation of the Council Tax's regressiveness. This is because Council Tax benefit payments are nationally determined and are paid irrespective of local authority tax rates, even if they are set above SSA. In this respect, the next section's use of the Nationwide Anglia data (which includes few, if any, households on income support) to model this implication of the Council Tax is particularly appropriate

6.4.3 **Regional household type bills** : Table 6.2 shows modelled average Council Tax bills for an additional tax of £100 per dwelling above SSA for different household types.

Table 6.2 : Average Council Tax bills for £100 per dwelling tax increase above SSA by household type and by region.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	81.88	117.64	83.31	125.91	134.95	111.58
YH	78.67	114.06	82.13	122.04	126.04	107.88
NW	83.83	121.69	83.89	132.47	140.97	115.25
EM	80.38	114.70	84.37	124.97	128.41	109.89
WM	81.54	117.57	84.49	127.02	131.87	111.93
EA	83.49	119.71	88.31	129.11	137.86	115.89
OSE	74.73	105.72	81.02	118.28	124.19	102.63
OMA	72.99	103.43	77.87	117.50	126.42	100.62
Lond	81.57	112.02	86.26	124.05	126.21	104.49
SW	79.00	112.97	86.57	124.01	131.76	109.31
Engl	79.44	112.39	83.27	124.32	130.22	107.88

Data Source : Nationwide Anglia Building Society
Calculations : Author

The England average for all households is £107.88, showing that the Nationwide Anglia data, as with the actual distribution of capital value, has an average capital value which falls below the average Band D figure of £127.15 given in the previous section. The regional averages for all households reflect the pattern established in the previous section on Band D tax rates. Average bills are lower in comparison with figures for resources Band D tax rates because of the inclusion of single adult households' bills. The range of bills is attenuated in comparison with Band D tax rates because of the effects of banding, Council Tax bills are higher in comparison with Band D tax rates in high value areas and lower in low value areas, the opposite influence to the resources effect.

The expected differentiation by household type discussed in the previous chapter is evident with single adult and parent households having consistently lower bills than either two adult, nuclear families or, the highest bills, multiple adult households. The bills for each household type retain the regional pattern noted previously. The outcome of the balance between the resources effect and the influence of banding on household bills noted at the beginning of this section is clearest in the Nuclear Family household type, the commonest of the household types. Lower value regions such as Yorkshire and Humberside have bills below the regional Band D figure (For comparison, see Table 6.1), mid-value areas such as the South West have bills very similar to Band D tax rates whilst higher value regions have bills higher than Band D. This pattern suggests, at least in terms of averages across all income groups, that the influence of banding outweighs the influence of the resources effect on household bills. The following section investigates the relationship between income levels, capital value banding and the resources effect in terms of the inferred Council Tax bills by income group for the reaggregated household types used in the latter sections of the previous chapter.

6.4.4 **Resources effect bills for reaggregated household types by income group** : Table 6.3 shows Council Tax bills for Single Adults by income group and by region. Although the bills here are those inferred for spending above SSA the distributional pattern is much as that found in the previous chapter for the distribution of actual Council Tax bills - bills rise with income, but the pattern is differentiated by region.

Closer inspection of the figures across income groups reveals that in comparison with the North West, the region which previously displayed consistently higher Council Tax bills, at lower levels of income households in higher value areas - particularly London and East Anglia - have bills which are very close to those of the North West. As income rises, the bills for the North West rise much faster than for those for higher value regions. In these regions Council Tax bills remain virtually constant until the £650 to £750 income group. At the highest level of income the range of bills between the Outer Metropolitan Area and the North West widens to £34, having been around £6 for the lower income groups.

Table 6.3 : Average Council Tax bills for £100 per dwelling tax increase above SSA by income group for Single Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	77.11	77.97	83.59	90.33	99.42	101.58	100.52		122.37	82.09
Y&H	75.15	75.11	79.73	87.43	94.66	96.10	108.87	111.68	120.60	79.29
NW	77.58	77.90	84.66	93.94	104.40	106.76	109.12	116.96	130.96	83.84
EM	75.82	76.43	80.66	87.70	93.12	109.65	94.56	103.01	117.95	80.92
WM	74.95	76.49	81.80	89.47	98.05	96.13	110.13	113.73	120.92	81.92
EA	82.35	80.50	82.23	84.42	92.56	91.01	102.44	97.04	96.29	84.21
OSE	75.61	73.50	71.71	76.09	78.82	84.27	84.94	93.12	100.90	75.53
OMA	73.84	71.13	70.91	72.42	72.89	77.67	79.97	86.04	96.94	73.60
Lond	82.62	79.22	78.31	79.66	79.83	83.08	88.70	96.72	103.80	81.97
SW	78.41	75.23	76.98	84.20	88.20	96.79	100.64	100.40	106.81	80.04
Engl	76.69	76.36	78.43	81.25	82.25	85.73	91.22	97.72	104.38	79.94

Data Source : Nationwide Anglia Building Society
Calculations : Author

There are a number of components to the explanation of this pattern. Firstly, in lower value areas the relationship between income and capital value appears to be more consistent than in high value areas. This produces a relatively smooth progression of bills rising with income. Because of these regions' low resources, the bills are broadly higher than in higher value regions. By contrast, the relationship between income and capital value is less consistent in higher value areas. Because of the 'threshold' capital values alluded to earlier, lower income households occupy relatively expensive properties, thus imposing an equivalent 'threshold' liability for Council Tax. As a result, lower income households pay higher Council Tax bills than similar households elsewhere. Because of higher value regions' greater taxable resources Band D rates are relatively low so that at higher levels of income - where the relationship between capital value and income matches more closely that found in other regions - Council Tax bills are low in comparison with those for households on similar levels of income in other regions. This has the effect of compressing the range of Council Tax bills in higher capital value areas since bills are relatively high for lower income groups and lower for higher income groups. In effect, Council Tax is more regressive in higher value areas Council Tax in lower value areas.

The broad regional distribution of Council Tax bills for Two or More Adults (Table 6.4) closely resembles the pattern established previously for Single Adults. The pattern of average bills across income groups lends further support to the idea of threshold Council Tax liability. In the higher capital value areas, particularly the Outer Metropolitan Area and London, Council Tax bills are virtually identical for all income groups up to £650 to £750 level. In the mid-value areas such as East Anglia and the South West this consistent tax level stretches only as far as the £450 to £550 income group. By contrast in lower value areas there is a gradual, if not dramatic, increase in Council Tax bills with income. As with the previous chapter, this pattern is best assessed in the next section in terms of the percentage of income taken in bills for spending above SSA for reaggregated household types.

6.4.5 **Percentage of income taken by resources effect Council Tax bills** : As with the analyses presented in the previous chapter, the £0 to £150 income group poses analytical difficulties because of a small number of households whose property's capital value is significantly unrelated to income. The figures given in the subsequent tables refer to the percentage of income taken for potential bills imposed by an additional £100 per dwelling above SSA only, rather than percentages for actual bills. Because of this the percentages are low in comparison with those presented in the previous chapter although small differences in percentages can translate into substantial sums, particularly for higher income groups. The analysis is therefore more concerned with the percentages in relation to one another rather than the absolute differences they imply. Averages for individual regions will also be misleading because the distribution of households across income

Table 6.4 : Average Council Tax bills for £100 per dwelling tax increase above SSA by income group for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	108.75	108.25	113.44	121.23	131.43	138.87	156.44	158.46	181.03	121.88
Y&H	105.86	105.18	113.78	116.72	127.19	137.83	145.20	161.23	169.73	118.12
NW	110.36	111.36	110.46	124.25	137.90	152.49	165.48	176.43	179.02	127.21
EM	105.09	107.47	115.43	117.28	125.35	137.34	151.61	158.41	169.17	119.43
WM	107.04	108.57	110.47	119.79	128.30	138.20	152.63	159.55	167.50	121.81
EA	117.48	117.35	113.19	119.73	123.19	135.29	138.81	147.43	153.13	124.13
OSE	106.05	104.42	116.38	105.11	107.26	114.91	123.16	131.79	141.16	111.06
OMA	101.23	104.72	106.07	105.96	103.33	104.86	112.52	121.30	132.75	108.81
Lond	120.23	114.97	104.45	113.08	110.54	110.75	114.96	120.96	139.14	116.08
SW	115.36	111.91	113.66	113.77	120.25	130.19	138.16	142.36	154.12	118.01
Engl	108.75	108.90	111.44	114.98	117.27	120.08	126.88	134.25	146.32	117.63

Data Source : Nationwide Anglia Building Society
Calculations : Author

groups differs regionally - there are, for example, relatively more lower income households in low capital value areas, thus skewing average percentages downwards.

Table 6.5 shows the percentage of income taken by resources effect Council Tax bills for Single Adults. Leaving aside the problematic £0 to £150 income group, the most obvious feature of the table is Council Tax's regressiveness for spending above SSA. The average percentage of income for England taken for the £850+ income group is just over a third of that taken for the £150 to £250 income group. The comparable ratio for actual Council Tax bills given in the previous chapter was considerably less, at just under two thirds. This suggests that the resources effect, at least in terms of the England average, makes the Council Tax even more regressive than for tax rates set at SSA.

If Council Tax was horizontally equitable for spending above SSA (irrespective of its vertical inequality) the percentage of income taken should be equal for each income group across the regions. Tables 6.5 and 6.6 both show that there are systematic regional differences between the percentage of income taken in Council Tax for spending above SSA. The broad pattern of horizontal inequity shows that the lowest proportion of income taken for spending above SSA is taken from households in the higher value regions such as the Outer Metropolitan Area, the Outer South East, East Anglia and London. Equally, the highest proportions of income are taken in low resources areas such as the North and North West. The range of average percentage of income taken for Two or More Adults across England is proportionally narrower than for Single Adults, this may reflect greater consistency of the household type's circumstances. The percentage for the £850+ income group is roughly a quarter that for the £150 to £250 income group, suggesting that the tax is less regressive for this group than for Single Adults (although as the previous chapter showed, the Council Tax is a lesser burden relative to income on Single Adults than on larger households). In comparison with the Council Tax bills modelled in the previous chapter, the range of percentage of income taken for spending above SSA is narrower. The percentage of income taken for the £850+ income group is just over half that for the £150 to £250 income group, confirming that overall the Council Tax is more regressive for spending above SSA than at or below SSA. Leaving aside the £0 to £150 income group, it is noticeable that the most diverse regional range is for the £150 to £250 income. The lowest proportions of income are in higher value areas of the Outer South East and the Outer Metropolitan Area. Although both London and East Anglia show proportions which are above the income group average, the previous pattern is restored in the subsequent, higher income groups.

However, the more detailed patterns of threshold capital values and Council Tax liability suggested by the actual inferred bills are not particularly clear in terms of the percentages of income taken. The combination of the 25% reduction for Single Adults and the use of

Table 6.5 : Average percentage of income taken in Council Tax for £100 per dwelling tax increase above SSA by income group for Single Adult households.

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	1.73	0.75	0.55	0.45	0.39	0.33	0.27		0.24	0.71
Y&H	1.33	0.72	0.52	0.43	0.37	0.31	0.30	0.26	0.23	0.69
NW	1.62	0.75	0.55	0.46	0.41	0.34	0.30	0.28	0.26	0.72
EM	1.57	0.73	0.53	0.43	0.37	0.35	0.26	0.25	0.23	0.67
WM	1.33	0.72	0.53	0.44	0.39	0.31	0.30	0.28	0.24	0.64
EA	3.61	0.76	0.53	0.42	0.36	0.29	0.29	0.23	0.18	0.68
OSE	2.09	0.68	0.46	0.37	0.31	0.27	0.23	0.23	0.19	0.51
OMA	1.69	0.66	0.45	0.35	0.29	0.25	0.22	0.21	0.19	0.41
Lond	1.51	0.71	0.50	0.39	0.31	0.27	0.25	0.23	0.20	0.40
SW	2.10	0.71	0.50	0.42	0.34	0.31	0.28	0.24	0.20	0.62
Engl	1.6	0.72	0.51	0.40	0.32	0.28	0.25	0.24	0.20	0.57

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 6.6 : Average percentage of income taken in Council Tax bills for £100 per dwelling tax increase above SSA by income group for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	2.47	1.00	0.72	0.59	0.51	0.45	0.43	0.38	0.35	0.70
Y&H	1.78	0.97	0.70	0.57	0.50	0.45	0.40	0.39	0.33	0.67
NW	4.02	1.02	0.74	0.60	0.54	0.49	0.46	0.43	0.35	0.75
EM	1.75	0.98	0.70	0.57	0.49	0.44	0.42	0.38	0.32	0.65
WM	5.31	0.99	0.72	0.58	0.50	0.45	0.42	0.39	0.32	0.73
EA	2.10	1.07	0.75	0.58	0.48	0.44	0.38	0.36	0.29	0.61
OSE	2.21	0.94	0.67	0.51	0.42	0.37	0.34	0.32	0.34	0.50
OMA	10.21	0.96	0.66	0.51	0.40	0.34	0.31	0.29	0.25	0.46
Lond	8.91	1.04	0.72	0.54	0.42	0.36	0.32	0.29	0.26	0.43
SW	2.61	1.02	0.70	0.55	0.47	0.42	0.38	0.34	0.29	0.61
Engl	3.74	1.00	0.71	0.56	0.46	0.39	0.35	0.32	0.28	0.59

Data Source : Nationwide Anglia Building Society
Calculations : Author

small percentages is likely to smooth out some of the relatively subtle differences in percentages of income taken. Table 6.6, the equivalent table for Two or More Adult households provides slightly clearer evidence of the pattern suggested by the previous section. In comparing the two most consistent high and low resources regions - the Outer Metropolitan Area and the North West - there is evidence that the range of percentage of income taken in the different regions by Council Tax across income groups suggesting that there are regional variations in the Council Tax's regressiveness created by the resources effect. Although the difference between the two region's percentage of income taken is 0.08% for the £150 to £250 income group, that gap has widened for the highest income group to 0.1%. Council Tax as a proportion of income, although always lower, has fallen faster for households in the Outer Metropolitan Area than for those in the North West. More generally it is noticeable that the percentages of income taken in Council Tax for households on lower income groups resident in higher value regions are some of the highest of all the regions. As income rises, the general trend is for the proportion of income taken to fall more rapidly for these regions. These patterns suggest that the resources effect and the influence of average regional capital values on bills operate differentially at different levels of income. Although capital value thresholds produce relatively high bills for lower income groups (in comparison with the relatively low bills for those in higher income groups), the greater influence of resources effect at higher levels of income (where the relationship between capital value and income is more consistent) serves to reduce the proportion of income taken in Council Tax above SSA in high value areas in comparison with similar income groups elsewhere, despite the higher capital value banding.

6.5 Council Tax and the Resources Effect - Conclusion

This chapter has built upon the previous analyses' recognition of the Council Tax's regressiveness and has shown that the resources effect accentuates this tax's regressiveness for spending above SSA. The comparison between actual modelled bills and those for spending above SSA, isolated from regional differences in prior tax rates shows that the tax is by its nature regressive. Since the grant system operates to produce only partial equalisation this is not entirely unexpected. Because both needs and resources are geographically distributed partial equalisation inevitably leads to a geography of regressiveness for spending above SSA. However, this pattern of regressiveness is more complex than the broad pattern in which households living in low capital value areas with lower taxable resources pay proportionally more than those in the higher value areas. An important implication of this analysis is that Council Tax is more horizontally inequitable for spending above SSA than for spending at or below SSA. The resources effect implies that similar households with similar incomes are treated differently by the local tax system to an even greater extent than for spending at or below SSA.

The general pattern of regressiveness is made more complex by the interaction of two influences operating with different effects. High capital value or highly resourced areas will tend to have low Band D tax rates for spending above SSA and vice versa in low capital value areas. Operating to reverse the first influence is the effect of Council Tax banding. This will serve to produce lower bills in low capital value areas than in areas of higher average capital values. The balance of these two influences in determining the size of bills relative to income depends (at least in terms of the resources effect) on the relationship between capital value and income. When this relationship is consistent, the influences of banding and the resources effect operate to produce a consistent, although regressive, relationship between income and Council Tax bills. However, the relationship between income and capital value is less consistent for households with lower levels of income in high capital value areas. The existence of capital value 'thresholds' ensures that such groups face higher Council Tax bills, relative to income. As the relationship between capital value and income is restored as income rises, the proportion of income taken by Council Tax for spending above SSA declines further than in other areas, in other words the resources effect becomes more apparent, despite such households occupying properties in higher Council Tax bands. As a result the Council Tax is more regressive in these regions than in others, adding to the tax's existing horizontal inequity.

The difficulties induced by the resources effect are not confined to the introduction of horizontal inequity into the local tax system, a number of further issues are also raised. The resources effect undermines the principle of local accountability, enshrined in the Community Charge legislation. 'Paying for Local Government' (DoE, 1986) argued that local accountability could only be maintained if changes in local tax bills were directly related to changes in local expenditure. As noted in Chapter Three, this proposition is also implicit in the Council Tax's consultation paper (DoE, 1991a). However, the resources effect implies that an identical change in local taxation above SSA will lead to different changes in local authorities' Band D tax rates, thus undermining the relationship between expenditure decisions and local tax bills.

A second issue raised by the resources effect is the ability of local authorities to fulfil the terms of their democratic mandate in spending to meet the preferences of their local population. The resources effect suggests that some low resourced local authorities will be unable to spend above SSA because of the additionally regressive impact the extra taxation would have on lower income groups who are not in receipt of Council Tax benefit. At the other extreme, it is possible that the higher spending preferences of higher income groups in highly resourced areas could impose disproportionately large increases (relative to income) in local taxation on lower income groups. In the theoretical terms of public finance analysis this would represent a form of fiscal exploitation.

Finally, the resources effect has further significant implications for the relationship between central and local government. If local authorities find their tax-raising capabilities restrained - either explicitly through tax rate-capping or implicitly through the Council Tax's design - then the focus of discontent in centre - local relations falls upon the level of local authority grant and in particular the means by which grant is distributed, the Standard Spending Assessment system (Audit Commission, 1993; Hale and Travers, 1993). The evidence of the recent review of the SSA system by both the Audit Commission and the Department of Environment and the criticism the system has been subjected to suggests that this refocusing of centre - local relations has already been well established.

Chapter Seven

A Geography of Regressiveness

7.1 Introduction

As with the previous chapter, this chapter focuses upon an issue arising from the 'standard' distributional analysis presented in Chapter Five. This chapter considers in greater depth the geography of the Council Tax's regressiveness and examines its distributional implications. The first section briefly discusses the influences which produce the geographical variation in the Council Tax's regressiveness - the geography of capital value, the relationship between capital value and income[1] and the reflection of that relationship in the Council Tax's banding system. The section goes on to consider how, at the local authority level, these factors allow the Council Tax to be levied more as a flat-rate, household tax than as a more progressive tax on the capital value of domestic property. The third section briefly notes a number of issues concerning the use of Nationwide Anglia data before considering the results arising from modelling the Council Tax on the data. The analysis is partly based upon a uniform, England-wide Band D tax rate in order to abstract the analysis from differences in regional and local authority tax rates, allowing the analysis to focus upon the implications of the design of the tax and its interaction with its taxbase.

7.2 A Geography of Regressiveness

The previous analyses of the distribution of Council Tax have shown first, that actual Council Tax bills are regressive and second, that their degree of regressiveness is regionally differentiated, in effect the tax is horizontally regressive. The preceding chapter showed that the uneven distribution of taxable resources causes the tax to be horizontally inequitable for spending above SSA, irrespective of regional tax rates. This chapter examines the geography of regressiveness in greater detail, concentrating on the elements of the tax's design and its tax base which bring about this geography rather than focusing on the actual distribution of Council Tax bills. The following analysis is therefore abstracted from the influence of pre-existing patterns of tax rates and considers the effects of the geography of capital value, the relationship between capital value and the intervening influence of Council Tax banding. The following section discusses the factors influencing the regressiveness of the Council Tax at the regional scale before considering its regressiveness at the local authority level.

7.2.1 Regressiveness at the regional level : By definition, a regressive tax takes a greater proportion of income from lower income groups than higher income groups. It

[1] The indexation process and the income data used are discussed in Chapter Four.

follows that if a geography of income exists there will necessarily be a geography of regressiveness. Even with uniform local tax rates across England, a concentration of lower income groups into particular regions would still lead to a tax being more regressive in lower income areas than in others, producing a geography of vertical inequity. In the case of the Council Tax the pattern of regressiveness is complicated by the relationship between income and capital value, and by the relationship between income and capital value banding.

The design of the Council Tax bands for England is based upon an average capital value of £78,000 (the Band D mid-point) with capital value distributed between the Band A upper threshold of £40,000 and the Band H threshold of £320,000. However, one of the implications of the geography of capital value is that the distribution of properties across the capital value spectrum will be regionally differentiated, i.e. the modal Council Tax band will differ across the regions. As a result, the distribution of associated Council Tax bills will be similarly differentiated. Unless differences in capital value and income are closely correlated at the regional scale and unless this correlation is reflected in Council Tax banding (and thus in actual Council Tax bills), the degree of regressiveness of the Council Tax will not be uniform, instead regressiveness will also be regionally differentiated. In distributional terms this equates to a form horizontal inequity since, potentially, similar households are treated differently purely on the basis of their location.

7.2.2 **Regressiveness at the local authority level** : Although each region has a significant number of properties in each Council Tax band, at the local authority level the distribution of capital value across Council Tax bands is likely to be narrower. Although some local authorities will also have relatively broad distributions of properties across Council Tax bands, this will not be true of a significant number of local authorities. Instead, some local authorities will have a concentration of their properties into a small number of Council Tax bands. This is particularly true of northern Metropolitan authorities such as Manchester, Liverpool, Barnsley and Sunderland, all of which have well in excess of 50% of their properties in Band A (Department of Environment, 1991b). This type of distribution across Council Tax bands has important distributional consequences since it gives rise to conditions under which Council Tax is levied more as a flat-rate household tax than as a more progressive tax on the capital value of domestic property.

As Chapter Three noted, there are three senses in which the Council Tax can be levied as a household tax. The first, technical sense is for households where none of the occupants ~~are~~ is personally liable for the tax, such as when all the occupants claim Income Support. In this case, the household Council Tax bill is half that determined by its capital value alone. The remaining, more significant sets of circumstances are inter-related. As Chapter Three

noted, the relationship between capital value and liability for Council Tax is not proportional, as would be the case with a pure property tax. The banding system serves to tilt the 'slope' of the relationship between capital value and Council Tax liability so that a minimum Council Tax liability is levied on all properties below £40,000 and a maximum liability for properties above £320,000. For properties which fall below £40,000 and above £320,000 Council Tax is levied as household tax since capital value plays no further part in determining Council Tax liability.

The third set of circumstances in which Council Tax is levied as a household tax, alluded to previously, arises from the extrapolation of the previous scenario to the local authority level. In local authorities where the distribution of capital value confines a large majority of properties to a range of three, two or even just a single Council Tax band (thus limiting the corresponding range of Council Tax bills), capital value plays very little part in determining tax liability. The Department of Environment's (DoE, 1991b) estimates of the distribution of capital value across Council Tax bands for each local authority, although based on a preliminary survey, allow an assessment of the prevalence of these circumstances. If the prevalence of Council Tax as a household tax is assessed on the (arbitrary) basis of capital value distributions which concentrate more than 50% of an authority's properties into one or two Council Tax bands, then there are 166 local authorities (from a total of 365 in England) where Council Tax, at least to some extent, is levied as a household tax. More notable examples show that 66% of the properties in Barnet fall into Bands F, G and H whilst in Tameside in Greater Manchester, 84% of properties fall into Bands A and B.

The significance of the distributional implications of Council Tax as a household tax depends upon the relationship between capital value of domestic property and income, and that relationship's representation in the relationship between income and Council Tax liability. Under a pure property tax the relationship between capital value and tax liability can be accurately reflected by an individual valuation for each property. This was the case under rates (although on the basis of imputed rent) in which a property's rates bill was determined by its rateable value multiplied by the prevalent rate poundage. However, under Council Tax the banding system interposes between, capital value and tax liability. In comparison with rates, the assessment of Council Tax liability through allocating all properties across just eight Council Tax bands is relatively crude. In areas where income and capital value are closely correlated, the concentration of domestic properties into a small number of capital value bands has few adverse distributional consequences since the small range of associated Council Tax bills serves to reflect adequately the relatively narrow distribution of income across the households resident in a local authority. This is likely to be true of a majority of local authorities, particularly where a majority of properties falls into the middle Council Tax bands rather than into the lower or higher Council Tax bands.

In these authorities, although the translation of the relationship between income and capital value through Council Tax banding will not be precise, the correlation will be sufficiently close to prevent low income groups facing relatively large Council Tax bills. However, in some local authorities where the translation of the relationship between income and capital value into Council Tax bands is less accurate than in other areas, the distributional implications are potentially significant.

These distributional consequences are likely to be most pronounced in local authorities where properties are concentrated into the lowest Council Tax bands. At the household level, for those resident in properties with capital values below £40,000 (the Band A upper threshold) Council Tax will be more regressive than higher up the income or capital value distributions, even if an accurate relationship between capital value and income exists, since below this capital value the banding structure does not reflect the relationship between capital value and income. This can be extrapolated to the local authority level. In local authorities with heavy concentrations of properties in Bands A and B, the range of Council Tax bills levied on local residents will be very small in comparison with the range of bills in areas with a wider distribution of property values. In the case of Tameside, 84% of households will pay Council Tax bills which vary by only 11% (the difference in tax rates between a Band A and Band B bill) whilst the variation in capital ~~property~~ value could potentially reach 160%.[1] Although the general level of local taxation will be determined by local capital values and tax rates, the actual bills will appear to vary little from that general level and will not appear to vary substantially with income. As a result Council Tax will appear more akin to a flat-rate tax levied on households. Leaving aside the unlikely possibility, in the case of Tameside, that 83% of residents have similar incomes, this distribution of properties across Council Tax bands implies a significant and regressive mismatch between income and Council Tax bills which will compound the regressive nature of the Council Tax.

To a lesser extent, a similar situation could arise in local authorities whose properties are concentrated into the highest Council Tax bands. Although there are no authorities with a predominance of Band G or Band H properties to match the predominance of Band A properties found in some northern authorities, there are adverse distributional consequences arising from these less dramatic distributions of properties across Council Tax bands. In particular, the capital value 'thresholds' alluded to in previous chapters are likely to play a part in producing relative extremes of regressiveness. Because of generally higher capital values across not only individual local authorities but also across entire regions such as the Outer Metropolitan Area, lower income groups are unlikely to occupy properties of a capital value which conform to the relationship between income and capital value found in other areas. Instead, such groups will necessarily occupy properties of higher capital value and

[1] This percentage is based upon the difference between the regional average capital value of a terraced property for the 1st Quarter, 1991 (the Council Tax valuation date) and the upper threshold for Band B.

will therefore experience household Council Tax bills which are substantially higher, relative to income, than in other areas, *ceteris paribus*. Potentially, a less visible form of household tax will be imposed, since until the more usual relationship between income and capital value is restored at higher levels of income, lower income households will face a similar, but relatively high, Council Tax liability. As with the previous circumstances in low capital value areas, this will serve to compound the Council Tax's regressiveness in these areas. The analysis of the following sections examines these potential sources of increased regressiveness in greater detail.

It should be noted that these issues do not affect households which are in receipt of full Income Support. As Chapter Three noted, for such households the Council Tax is more like a national tax since Council Tax benefit is paid irrespective of variations in local tax bills. It is more difficult to assess the impact on households which have incomes which qualify them for some level of Income Support, but not its maximum rate. Since Council Tax Benefit is withdrawn at the same rate as Income Support as income rises, the contribution to Council Tax will therefore vary by local authority. However, since relatively few of the households detailed in the Nationwide Anglia data will fall into these categories it is impossible to deal with these issues here. The next section goes on to present the results of the empirical investigation of these issues using the Nationwide Anglia data.

7.3 Modelling the Geography of Regressiveness

Previous chapters have illustrated the geography of the regressiveness of the Council Tax in terms of actual bills imposed on households with different incomes in different parts of the country. The analyses presented here demonstrate the geography of regressiveness abstracted from the influence of regional tax rates in order to show that this geography arises from the actual nature of the tax, rather from its current fiscal context.

7.3.1 **Nationwide Anglia data** : The preceding section considered in detail the relationships between capital value and income, and between income and Council Tax banding. It is therefore necessary to establish to what extent the Nationwide Anglia sample is representative of these relationships within the actual population. Chapter Four's detailed discussion of the data established that the regional distribution of capital value of households recorded in the Nationwide Anglia data accurately reflects the actual distribution. That section also discussed the representativeness of the sample in terms of income. The important aspects relevant to this chapter are first, that the Nationwide Anglia data are likely to be a good reflection of the actual home-owning, mortgaged population but, second, the data are unlikely to include any substantial representation of the very lowest income households since their level of income could not justify mortgage lending. However, as has been mentioned, since qualification for Income Support also implies

payment of Council Tax benefit, such households are insulated from the effects of the geography of Council Tax's regressiveness (in so far as the Income Support system fully rebates the taxes payable).

It is difficult to assess the reliability of the relationship between income and capital values implied by the Nationwide Anglia households since there is no source of data against which to make a simple comparison. As Hills and Sutherland noted, surveys with detailed income data such as the Family Expenditure Survey, do not include information on the capital value of domestic property (Hills and Sutherland, 1991). As a result it has been assumed that for the income groups represented in the Nationwide Anglia data the relationship of capital value to income is an accurate reflection of that found in the actual population. It should also be noted that even with the very large Nationwide Anglia data set, simultaneous disaggregations for single income groups on a regional or Council Tax band basis result in very small sample sizes, particularly for the lowest and highest income groups and for the highest Council Tax bands. Hence, although the sampling fractions in the Nationwide Anglia data vary with income, it is assumed that for the relationships examined the data allow a representative assessment to be made, except for very low income groups who will in any case be eligible for Income Support.

The analysis is based on the Nationwide Anglia data set with single adult households excluded. This exclusion has been made to avoid introducing inconsistency into the relationship between capital value and income and to avoid the necessity of considering the effect of the 25% reduction for single adults.

7.3.2 **Regional level analysis** : The simplest means of demonstrating how the geography of regressiveness arises is by comparing the distribution of household income groups in relation to the associated Council Tax bands across different regions. As a basis for subsequent regional comparisons, Table 7.1 shows the national level (England) distribution of different income groups across Council Tax bands. The expected pattern is clear - lower income groups are to be found in lower value properties - over 80% of households with incomes between £250 and £350 occupy properties in Bands A to C. At the other end of the income spectrum over 70% of households with incomes in excess of £850 occupy properties in Band E and above. It is noticeable that the commonest Council Tax band for the Nationwide Anglia average income group (which is likely to be higher than the national average) is Band C, rather than Band D. This suggests first that the use of Band D capital values as a basis for the banding system's design are inappropriate and, secondly, if Band C capital values better represent average capital values then the relationship between capital value and income (at least at the England level) apparent in the Nationwide Anglia data reflects the actual relationship in the overall population since Band C is the modal Council Tax band for average income Nationwide Anglia households.

Table 7.1 : Distribution of households across Council Tax bands by income group (%).

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£0-£150	47.0	18.9	18.6	8.0	4.7	1.8	1.1	0.0
£150-£250	42.1	21.8	20.7	9.8	4.2	0.9	0.5	0.0
£250-£350	29.8	23.0	24.7	15.0	5.8	1.3	0.3	0.0
£350-£450	16.7	24.3	26.2	19.0	10.2	2.9	0.7	0.0
£450-£550	5.8	22.7	30.5	21.3	13.1	5.0	1.5	0.1
£550-£650	1.9	15.4	33.4	22.5	16.2	7.7	2.7	0.1
£650-£750	0.8	6.5	27.6	25.7	24.4	10.3	4.5	0.2
£750-£850	0.7	4.1	19.1	24.3	26.0	16.3	9.3	0.3
£850 +	0.9	2.7	9.8	15.1	27.7	23.5	19.6	0.7
All Group	16.0	19.4	26.0	18.5	12.3	5.3	2.5	0.1

Data Source : Nationwide Anglia Building Society
Calculations : Author

The implication of the geography of capital value is that the distribution of properties across Council Tax bands will be regionally differentiated, the issue here is the degree to which that geography is correlated with that of household income. Although for the majority of areas Council Tax bands will broadly reflect the relationship between capital value and income, at the extremes of the capital value distribution the reflection of this relationship will be much more imperfect, a failing which has potentially significant distributional implications. If we compare two regions which might be expected to represent the extremes of the capital value distribution - the North and the Outer Metropolitan Area - this issue can be illustrated. Tables 7.2 and 7.3 show the distribution of income groups across Council Tax bands for the North and the Outer Metropolitan Area respectively. Two important comparisons should be considered first, both in terms of modal figures. The commonest income band varies considerably - for the North the modal income group is £250 to £350 whilst for the Outer Metropolitan Area it is £450 to £550, indicating a distinct geography of income. This geography of income is reflected in the second comparison between the regional modal Council Tax bands, the North's modal band is Band A whilst the Outer Metropolitan Area's is Band C. These comparisons imply that although regional modal incomes may differ by 66% (the percentage difference between the two mid-points of the modal income groups), the difference in tax rates implied by modal Council Tax bands is 22% (the percentage difference between Band A and Band C tax rates). Since it has been already been established that the Council Tax is a regressive tax, it is clear that in lower value areas (assuming a consistent relationship between income and capital value) that Council Tax on average will take a greater proportion of income than in higher areas.

To explore this effect more fully the Council Tax was modelled on the Nationwide Anglia data on the basis of a standard Band D rate across England of £500. This isolates the influence of pre-existing patterns of tax rates and allows more detailed consideration of the geographies of capital value and income. Table 7.4 will be returned to in greater detail in subsequent sections but at this stage it is clear that the average percentage of income taken in Council Tax for a uniform tax rate is higher in lower value areas than in higher areas, the average peaking in the North West at 2.71% but reaching its nadir in London at only 1.89% of income.

It is also apparent from the comparison between the North and the Outer Metropolitan Area there are conditions under which Council Tax is levied more as a household tax exist. In the North a majority of households occupy properties in the lower Council Tax bands. Across all income groups, over 63% of households live in Band A and B properties, implying that Council Tax bills for well over half of the North's households will vary by only 11% (on the basis of a regionally consistent Band D tax rate). In the Outer Metropolitan Area, however, only 17% of households occupy Band A and Band B properties. This suggests either that there are more Outer Metropolitan Area households

Table 7.2 : Distribution of households across Council Tax bands by income group for North region (%).

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	All
£0-£150	71.6	19.4	4.5	0.0	3.0	1.5	0.0	0.0	2.2
£150-£250	69.5	19.5	7.0	2.7	1.1	0.2	0.0	0.0	14.8
£250-£350	51.7	25.3	14.7	5.9	2.0	0.4	0.0	0.0	31.5
£350-£450	34.9	26.6	21.5	11.7	4.4	0.8	0.1	0.0	25.6
£450-£550	19.9	21.7	32.1	13.3	8.4	3.8	0.8	0.0	13.0
£550-£650	10.2	19.3	27.9	19.3	13.7	8.6	1.0	0.0	6.5
£650-£750	6.0	10.0	17.0	20.0	38.0	6.0	3.0	0.0	3.3
£750-£850	11.1	8.3	11.1	13.9	27.8	19.4	8.3	0.0	1.2
£850+	1.8	3.6	8.9	14.3	21.4	25.0	25.0	0.0	1.9
All	40.7	22.7	18.1	9.3	6.0	2.4	0.9	0.0	100

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 7.3 : Distribution of households across Council Tax bands by income group for the Outer Metropolitan Area. (%)

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	All
£0-£150	0.0	11.4	45.7	25.7	8.6	5.7	2.9	0.0	0.4
£150-£250	2.6	13.4	39.0	28.6	11.3	3.5	1.7	0.0	2.7
£250-£350	1.7	11.2	34.7	33.6	14.2	3.7	0.9	0.0	9.2
£350-£450	2.4	18.8	27.8	28.5	15.4	5.1	2.0	0.0	17.8
£450-£550	1.3	28.1	29.5	19.9	13.1	6.2	1.9	0.0	24.1
£550-£650	0.2	19.2	36.8	20.1	12.9	8.5	2.4	0.0	20.2
£650-£750	0.0	6.5	27.8	24.9	23.3	11.9	5.5	0.1	11.1
£750-£850	0.0	3.1	18.4	21.2	29.1	16.5	11.5	0.2	6.1
£850 +	0.1	1.0	9.0	13.9	25.9	26.6	23.0	0.4	8.4
All	1.0	16.4	28.9	23.1	16.7	9.1	4.7	0.1	100

Data Source : Nationwide Anglia Building Society
Calculations : Author

whose incomes permit their residence in higher value properties (in line with the average relationship between capital value and income), or that lower income groups face higher Council Tax bills. In fact each of these propositions is true - whilst almost 50% of Northern households have incomes below £350, only 12% of Outer Metropolitan households have this level of income. However, for those households with this level of income the distributional consequences are significant. Whilst in the North almost 90% of households with incomes of between £150 and £250 occupy properties in Bands A and B, only 18% of Outer Metropolitan households in the same income group are resident in such properties. Instead almost 68% of this income group in the Outer Metropolitan Area occupy properties in Bands C and D. This implies that although there are fewer lower income households in the Outer Metropolitan Area, those households will experience relatively high Council Tax bills in relation to income in comparison with their North Western counterparts. As Chapter Five showed, this 'built in' geography of regressiveness is significantly influenced by the regional pattern of tax rates.

This analysis can be considered in greater detail by examining the distribution of households with a similar level of income across Council Tax bands on a regional basis. If Council Tax banding were to produce perfect horizontal equity the distributions across Council Tax bands by income group would be identical. Tables 7.4 to 7.6 show these distributions for the £150 to £250, £450 to £550 and £850 + income groups respectively. Table 7.5, representing low income groups, clearly displays the geography of regressiveness. If we consider regional modal Council Tax bands, it is obvious that in lower value areas - the North, North West, Yorkshire and Humberside and the East and West Midlands - the modal band is Band A. However, it is equally clear that regional capital value thresholds operate to push low income groups into higher banded properties. The modal band for the Outer South East, East Anglia, the South West and the Outer Metropolitan Area is Band C whilst in London the modal band is Band D. Thus households with ostensibly similar levels of income face substantially different levels of Council Tax purely on the basis of their geographical location, a conclusion which is confirmed for this income group in Table 7.4.

The pattern for the £450 to £550 income group given in Table 7.6, which is the Nationwide Anglia's average England income group, is far more consistent. For all regions, other than the Outer South East, the modal band is Band C, suggesting that closer to the middle of the income and capital value distributions, the reflection of the relationship between capital value and income in Council Tax banding becomes more precise. Once again this is broadly confirmed by the pattern of the percentage of income taken in Council Tax for a uniform Band D tax rate, the differences in the percentages for the middle income groups are narrower than for the extremes of the income distribution. The geography of capital value is still evident with a far greater proportion of households in lower income groups

Table 7.4 : Percentage of household income taken in Council Tax based on a standard Band D tax rate by income group and region.

%	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All
N	8.88	3.33	2.42	1.98	1.74	1.56	1.48	1.36	1.24	2.38
YH	6.31	3.40	2.46	2.04	1.78	1.62	1.48	1.44	1.19	2.38
NW	14.1	3.55	2.61	2.17	1.94	1.81	1.67	1.60	1.30	2.36
EM	6.27	3.49	2.53	2.07	1.80	1.66	1.61	1.44	1.24	2.35
WM	20.4	3.60	2.64	2.18	1.90	1.71	1.65	1.51	1.27	2.71
EA	7.85	3.94	2.83	2.20	1.86	1.74	1.54	1.45	1.20	2.34
OSE	9.62	3.91	2.76	2.12	1.77	1.60	1.49	1.39	1.19	2.11
OM	50.6	4.38	3.09	2.37	1.87	1.61	1.52	1.44	1.24	2.17
Lon	40.7	4.62	3.16	2.40	1.87	1.55	1.38	1.29	1.15	1.89
SW	10.4	4.06	2.80	2.23	1.91	1.74	1.59	1.44	1.23	2.46
All	14.7	3.67	2.68	2.18	1.86	1.63	1.50	1.40	1.21	2.33

Source : Nationwide Anglia Building Society
Calculations : Author

Table 7.5 : Distribution of households with weekly incomes of £150 to £250 by Council Tax Band and by region. (%)

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
N	69.5	19.5	7.0	2.7	1.1	0.2	0.0	0.0
Y & H	64.3	19.1	11.1	2.9	2.1	0.2	0.3	0.0
NW	50.7	14.2	14.0	5.9	3.6	0.7	0.7	0.0
EM	54.5	19.2	17.6	6.1	1.9	0.6	0.2	0.0
WM	45.5	22.1	20.1	8.3	2.8	0.9	0.1	0.0
EA	12.8	24.8	38.9	18.1	5.4	0.0	0.0	0.0
OSE	11.4	39.7	41.1	13.9	2.2	0.8	0.6	0.0
OMA	2.6	13.4	39.0	28.6	11.3	3.5	1.7	0.3
Lond	0.0	7.9	30.2	35.7	19.8	5.6	0.8	0.0
SW	13.7	25.4	32.2	18.1	8.7	1.2	0.6	0.0
All	42.1	21.8	20.7	9.8	4.2	0.9	0.5	0.0

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 7.6 : Distribution of households with weekly incomes of £450 to £550 by Council Tax Band and by region. (%)

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
N	19.9	21.7	32.1	13.3	8.4	3.8	0.8	0.0
YH	16.7	21.8	27.6	17.6	11.1	4.2	0.9	0.0
NW	6.8	14.4	28.8	24.6	15.7	7.4	2.2	0.1
EM	12.4	19.6	30.1	23.4	11.3	2.6	0.7	0.0
WM	5.9	20.5	26.5	23.4	17.4	4.9	1.4	0.0
EA	4.4	17.5	35.3	25.9	12.5	3.8	0.6	0.0
OSE	8.0	30.6	30.1	17.4	9.9	3.2	0.7	0.1
OMA	1.3	28.1	29.5	19.9	13.1	6.2	1.9	0.0
Lond	0.4	18.7	37.9	23.7	13.2	4.5	1.3	0.2
SW	4.0	19.4	29.2	23.8	15.4	5.5	2.6	0.0
All	5.8	22.7	30.5	21.3	13.1	5.0	1.5	0.1

Data Source : Nationwide Anglia Building Society
Calculations : Author

occupying lower band properties in low capital value areas than in higher value areas. For the £850+ income group sample sizes are relatively small since there are relatively few households with level of income, particularly in northern regions. However the broad pattern shown in Table 7.7 suggests that households with this level of income occupy higher band properties in low value areas than those in the South Eastern regions. This is a reflection of regional differences in the cost of living. The modal band for London being Band E, the same as the South West whilst for the North, North West and East Midlands, Band G is the modal band. This pattern is reflected in Table 7.4. If the figures for higher income households in London and the North are compared it is clear that Northern households pay a consistently higher proportion of income in Council Tax than their London counterparts with a similar level of income.

7.3.3 **Regional analysis - Summary** : This analysis has examined the influences which have led to the Council Tax's geographically differentiated regressiveness. By considering the distribution of households across Council Tax bands and income groups and by abstracting from the pre-existing pattern of regional tax rates it has become clear that the design of the Council Tax's banding system fails to reflect accurately the relationship between income and the capital value of domestic property at lower levels of income and in lower capital value areas. As a result, in lower value areas the banding system imposes relatively high bills on those whose capital values fall below the upper Band A threshold. Because of generally low capital values, relatively higher income groups can minimize their Council Tax liability by occupying low value properties. At the other extreme of the capital value spectrum, it is apparent that the capital value 'thresholds' found in relatively high value areas push lower income groups into higher value properties, thus imposing relatively high Council Tax bills on these income groups in comparison with their counterparts in lower value areas. The following section considers the levying of Council Tax more as a flat-rate household tax in greater detail at the local authority level.

7.3.4 **Local authority level analysis** : This section focuses on the distributional implications of Council Tax being levied as a household tax at the local authority level outlined in previous sections. In order to illustrate the Council Tax as a household tax, Council Tax has been modelled on two contrasting local authority areas, Wigan and Barnet. These authorities have been chosen partly on the basis of their likelihood of displaying the hypothesised effect and partly because their sample sizes were sufficiently large to permit the necessary analysis. The sample sizes were 594 for Wigan and 672 for Barnet. There are obvious difficulties in terms of sample size in disaggregating across income groups and capital value bands at the level of individual local authorities. Where a cell has no recorded contents, rather than having so few recorded households the cell registers as 0.0 as a percentage, the cell is left empty. Because of these sample difficulties the analysis is not exhaustive and should be regarded more as illustrative since the preceding regional analysis

Table 7.7 : Distribution of households with weekly incomes greater than £850 by region and by Council Tax Band (%).

%	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
N	1.8	3.6	8.9	14.3	21.4	25.0	25.0	0.0
Y & H	2.7	8.2	8.2	17.8	23.3	21.9	17.8	0.0
NW	5.2	4.0	6.9	8.1	21.4	20.2	31.8	0.2
EM	2.9	4.8	5.8	14.4	23.1	24.0	25.0	0.0
WM	2.1	3.5	5.6	11.9	26.6	23.8	25.9	0.7
EA	0.0	4.1	11.0	17.8	21.9	23.3	21.9	0.0
OSE	1.4	3.6	11.2	16.5	28.8	21.5	16.2	0.8
OMA	0.1	1.0	9.0	13.9	25.9	26.6	23.0	0.4
Lond	0.0	2.0	12.0	18.3	33.1	22.3	11.2	1.0
SW	0.0	4.8	10.8	12.7	26.5	21.7	23.5	0.0
All	0.9	2.7	9.8	15.1	27.7	23.5	19.6	0.7

Data Source : Nationwide Anglia Building Society
Calculations : Author

has already established that the conditions in which Council Tax is potentially levied more as a household tax are widespread.

Tables 7.8 and 7.9 give the percentage of households distributed across income groups and Council Tax bands for Wigan and Barnet respectively. The lower figure in each cell refers to the percentage of households in each income group whilst the upper figure refers to the percentage of households in each band. The single most striking aspect of the tables is the overwhelming dominance of Bands A and Band B in Wigan, over 68% of households occupy properties in these bands, thus for a substantial majority of households Council Tax will vary only by 11%. Including Band C, 83% of households face Council Tax bills which vary only by 22%. But the predominance of Band A and Band B properties does not reflect the distribution of households across income groups. Since the modal income group in Wigan is £250 to £350, almost 25% of households occupying Band A and Band B properties have higher than the local authority modal income. It is clear from the example of Wigan that if almost 70% of households face bills which vary only by 11% then Council Tax appears to be far more akin to a flat-rate tax upon households than a tax upon capital value of domestic property.

The distribution of households in Barnet contrasts strongly with that for Wigan, under 10% of Barnet households occupy properties in Bands A or B whilst Bands C, D and E account for over 75% of properties. The distribution of income is less radically different with the modal income group being £450 to £550, although income groups below £350 comprise less than 15% of households compared with over 60% of Wigan households. The previous regional analysis suggested that capital value thresholds would result in a greater proportional tax burden upon lower income groups in areas such as Barnet than in areas such as Wigan. Table 7.10 shows the proportion of income taken for a standard Band D tax rate for Wigan and Barnet across income groups. Leaving aside the problematic £0 to £150 income group, the regional hypothesis appears to be confirmed at the local authority level. Although the average percentage of income taken in Council Tax is higher in Wigan, in terms of income groups there is a distinct pattern caused by regional capital value thresholds whereby at lower income levels Council Tax represents a greater burden upon lower income groups in Barnet. As income rises, the more normal relationship between capital value and income is restored and the difference between the two percentage figures narrows. As the regional analysis suggested, at the very highest levels of income households in Wigan face a higher Council Tax liability than those with similar incomes in Barnet.

7.4 Conclusion

This chapter has considered in some detail the influences upon the geography of the Council Tax's regressiveness. Whilst previous chapters have established that the

Table 7.8 : Distribution of Wigan Households by Council Tax Band and by income group (%).

Col Row	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	All Grps
£0- £150	9.4 88.9	1.3 7.4	1.1 3.7						4.5
£150- £250	35.4 64.7	24.5 26.6	7.9 5.0	7.3 2.9	3.3 0.7				23.4
£250- £350	38.6 48.3	38.4 28.6	32.6 14.3	23.6 6.4	13.3 2.0	9.1 0.5			34.2
£350- £450	11.0 23.9	27.8 35.9	28.1 21.4	25.5 12.0	16.7 4.3	27.3 2.6			19.7
£450- £550	4.3 15.9	6.0 13.0	23.6 30.4	27.8 21.7	23.3 10.1	36.4 5.8	50.0 2.9		11.6
£550- £650	0.4 5.6	1.3 11.1	5.6 27.8	9.1 27.8	10.0 16.7	18.2 11.1			3.0
£650- £750	0.4 7.7	0.7 7.7	1.1 7.7	3.6 15.4	26.7 61.5				2.2
£750- £850	0.4 20.0			1.8 20.0	3.3 20.0	9.1 20.0	25.0 20.0		0.8
£850 +				1.8 33.3	3.3 33.3		25.0 20.0		0.5
All Grps	42.8	25.4	15.0	9.3	5.1	1.9	0.7	0.0	100

Data Source : Nationwide Anglia Building Society

Calculations : Author

Table 7.9 : Distribution of Barnet Households by Council Tax Band and by income group (%).

Col Row	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	All Grps
£0- £150		1.6 20.0	0.5 20.0	1.3 40.0	0.6 20.0				0.7
£150- £250		6.6 11.4	4.7 25.7	6.7 28.6	5.5 25.7	2.6 5.7	3.8 2.9		5.2
£250- £350		16.4 16.7	11.6 36.7	6.0 15.0	9.1 25.0	5.3 6.7			8.9
£350- £450		32.8 16.9	16.3 26.3	15.3 19.5	18.2 25.4	15.8 10.2	7.7 1.7		17.6
£450- £550	100 1.4	18.0 8.0	25.8 35.5	18.0 19.6	18.2 21.7	17.1 9.4	19.2 3.6	50.0 0.7	20.5
£550- £650		19.7 11.0	17.9 31.2	21.3 29.4	12.1 18.3	9.2 6.4	15.4 3.7		16.2
£650- £750		3.3 2.5	13.2 31.3	18.0 33.8	9.7 20.0	9.2 8.8	11.5 3.8		11.2
£750- £850		1.6 1.9	7.4 26.9	6.0 17.3	11.5 36.5	7.9 11.5	11.5 5.8		7.7
£850 +			2.6 6.7	7.3 14.7	15.2 33.3	32.9 33.3	30.8 10.7	50.0 1.3	11.2
All Grps	0.3	9.1	28.3	22.3	24.6	11.3	3.9	0.3	100

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 7.10 : Percentage of income taken in Council Tax based on Band D tax rate of £500 for Wigan and Barnet by income group. (£)

Income Groups	Wigan	Barnet
£0 to £150	5.59	20.0
£150 to £250	3.48	5.68
£250 to £350	2.47	3.55
£350 to £450	2.07	2.72
£450 to £550	1.84	2.05
£550 to £650	1.71	1.65
£650 to £750	1.48	1.49
£750 to £850	1.41	1.34
£850 +	1.37	1.26
Average % of Income	2.51	2.00

Source : Nationwide Anglia Building Society
Calculations : Author

distribution of actual Council Tax bills is regressive, this analysis has shown that this regressiveness is geographically differentiated at both the regional and local authority levels and that this geography of regressiveness is innate within the Council Tax, rather than being a product of the immediate fiscal context. It is clear that the geographies of income and capital value, in combination with Council Tax banding, have significant distributional implications. Both at the regional and the local authority levels there is evidence to show that the Council Tax is levied more as household tax than a more progressive tax upon the capital value of domestic property. Department of Environment estimates (DoE, 1991b) show that the circumstances under which this occurs are not uncommon, some 24% of English local authorities have 50% or more of their taxable properties in Bands A and B.

In such areas, the banding system fails to reflect the relationship between capital value and income, a reflection which is better achieved at higher levels of capital value and income. Whether an intentional feature of the tax's design, the combination of the choice of an inflated average capital value (the Band D mid-point of £78,000) on which to base the banding system and 'tilt' in the relationship between capital value and Council Tax liability serves to produce a minimum household tax liability which is unrelated either to income or to capital value. Other than for those on Income Support, this appears akin to the minimum 20% contribution imposed by the Community Charge on all taxable adults

Hills and Sutherland (1992) considered an alternative design of the Council Tax based on twelve bands, providing for two additional bands below Band A for properties worth up to 32% and between 32 and 40% of average capital value respectively. Hills and Sutherland concluded that such a design for Council Tax would have 'relatively minor effects on the distributional consequences of the tax : too few properties would lie in the additional bands for much to change.' (Hills and Sutherland, 1992, p.40). However, their analysis was based upon national capital value distributions and was not able to consider the effects of Council Tax banding at the regional or local levels. The analysis here has shown that, assuming the household tax characteristic of Council Tax was unintentional and undesirable (although no rationale for the tax's design was given on which to make such a judgement), there are potential distributional improvements in the design of the tax to be made. These improvements could be made through additional bands below Band A, or through the choice of a lower average capital value figure on which the band thresholds are based, or through changing the tax rates associated with each band.

The following, final, empirical chapter considers in detail the immediate distributional implications of the transition from Community Charge to Council Tax.

Chapter Eight

From Community Charge to Council Tax

8.1 Introduction

This final empirical chapter examines in more detail the distributional implications of the shift from Community Charge to the Council Tax. Whilst previous analyses have focused upon the broader, long term distributional implications of the Council Tax, this chapter focuses on the immediate household level consequences of the transition during 1993/4. Changes in tax bases are important bases for the assessment of fiscal incidence, allowing differential measures of change to be assessed (as discussed for example by Krzyzaniak and Musgrave, 1963, and in Chapter Four). In this case the assessment of change from the Community Charge to the Council Tax is used to initiate an assessment of changes in incidence at the regional and household levels. A major aspect of this assessment has to consider in some detail the effects of the Council Tax Transitional Relief Scheme (CTTRS), the scheme designed to protect households from significant local tax increases during the tax's first years.

The next section first considers the issues raised by the transition from Community Charge to Council Tax, focusing on the implications of shifting between the two different tax bases and the influences on the redistribution of the tax burden. This section then outlines the operation of the transitional scheme. The third section considers the results of a Nationwide Anglia-based model of the transition. This section first briefly examines the pattern of tax change at the regional level and in terms of household type before considering in greater detail the distributional effects of the CTTRS.

8.2 The Effects of Changing Tax Bases

On 1st April, 1993 the Council Tax replaced the Community Charge or Poll Tax. In doing so the basis for local taxation shifted from taxable adults to (principally) capital value, necessarily entailing a considerable redistribution of the local tax burden. The principal effect of the Council Tax's introduction, considered in detail in Chapter Five, is to make the local finance system more progressive than under Community Charge, though to a lesser degree than might initially have been thought (Giles and Ridge, 1993; Hills and Sutherland, 1992). The introduction of the Community Charge as a replacement for rates three years previously provides a model of the likely effects of changing tax bases. The shift from a property tax to a per capita tax redistributes the local tax burden away from those living in highly rated properties or in single person households and towards those living in low-rated properties or in multiple adult households, although these effects were offset by the

Community Charge Reduction Scheme. The introduction of the Council Tax, principally a property tax replacing a per capita tax, is likely to offer something of a mirror-image of the pattern of redistribution arising from the abolition of rates and the introduction of per capita tax. However, the following sections briefly consider how the design of the Council Tax and its interaction with other elements of the local finance system is likely to make the actual pattern of redistribution more complex than intuitive expectations.

8.2.1 **Council Tax as a hybrid tax** : As the analysis contained in Chapter Three showed, Council Tax is by no means a pure property tax based on capital value. Hills and Sutherland (1991) point out that the Council Tax is a hybrid tax comprising diverse property, household, income and per capita tax elements, all of which have been shown to complicate the distributional implications of the shift from Community Charge.

8.2.2 **Geography of capital value** : Previous chapters have emphasised the influence of the geography of capital value on the distribution of the Council Tax, but the effects of shifting between two very different tax bases accentuate this influence. Whilst taxable adults are distributed fairly evenly across all local authorities and regions, the capital value of domestic property across England is not. The geographies of taxable resources under Community Charge and Council Tax are therefore very different, making a shift between the two taxes more complex.

Whilst under Community Charge, variations in local tax bills were (in theory) produced by different local spending preferences, the same cannot be said of Council Tax. Although Band D, (and subsequently Band C) figures have been used as an analogue for 'headline' Community Charge tax rates, because of the geography of capital value, for the majority of households in England such 'headline' figures are largely irrelevant. The average property value in London falls into Band F implying a bill of £755 (on the basis of the average England Band D figure) whilst in Yorkshire and Humberside the average value band is Band A, implying a bill of £349. This complexity is compounded by the fact that the average capital value band does not necessarily equate with the modal band, that is, the band which is most common or into which the most properties fall. For example, in East Anglia the average property value falls into Band C whilst the modal band is Band A. Since the modal band bill will be that most commonly paid by local residents, the difference between mean and mode has an immediate significance in terms of experiences of the shift between Community Charge and Council Tax at the household level. On the basis of uniform tax rates across England, residents of average value Inner London homes are likely to pay 30% more in local tax than the bill for an average Band C home, the average value across the whole of England. Residents of the Outer Metropolitan Area, the rest of the South East and the South West are also likely to pay more than average tax-payers elsewhere. This uneven distribution of taxable resources implies that the proportion of

revenue raised by individual authorities from local domestic taxation will differ according to their local tax base. As Chapter Six noted, this gives rise to the resources effect since highly resourced local authorities will be able to raise the same level of additional revenue for spending above SSA than at a lower Band D tax rate than their lower resourced counterparts. As Chapter Four showed, the Nationwide Anglia data accurately reflect the actual distribution of properties across Council Tax bands, ensuring that the modelled results will reflect the actual experience of local authority residents.

8.2.3 **Council Tax and household type** : In a shift between a per capita and (principally) a property tax, there is an inevitable redistribution of the local tax burden across different types of households. Because of the Council Tax's inclusion of elements of both a household and per capita tax, the redistribution caused by the shift is likely to be even more complex. The group most likely to experience an increase in taxation is single adult households since, as was the case with rates, a property tax will be relatively high for a single person household. The group most likely to experience a decrease in local tax bills is households comprising multiple adults. These households experienced considerable increases in local tax bills in the shift to Community Charge from rates. The most marginal effects of the shift between Community Charge and Council Tax will be on the other household groups - couples / two adult households and nuclear families (two adults with children). Chapter Five has shown that the size of relative gains or losses are significantly influenced by the regional geography of capital value.

8.2.4 **Council Tax Transitional Relief** : The Council Tax Transitional Relief Scheme was designed to cushion the impact of the reintroduction of a property tax by preventing household bills from rising too far in the tax's first years. The scheme operates by allocating to each Council Tax band a maximum amount by which local tax bills can rise in comparison to the resident household's final year of Community Charge. Thus 1993/4 Council Tax bills for households occupying Band A properties could rise only by £91 whilst household bills for Band H could rise by £182 (Table 8.1). The reduction effected by the CTTRS was paid as additional central support to local authority revenue, although local government expenditure in 1993 / 4 rose by less than 2%, a virtual standstill in local spending (Butler, Adonis and Travers, 1994). In order to prevent a repetition of the confusion which accompanied the Community Charge's introduction, which allowed substantial increases in local tax rates, the CTTRS ensured that increases in tax rates above SSA were still felt in Council Tax bills by calculating CTTRS eligibility on the basis of a Band D tax rate for spending at SSA. Similarly, the CTTRS was based upon the assumption of a collection rate of 98%. As a result, households in local authorities which set higher tax rates on the assumption of a collection rate lower than 98% would receive less relief than in other authorities. The CTTRS took into account of the number of occupants in each household, no ceiling on the number of charge-payers on which

Table 8.1 : Council Tax Transitional Relief Scheme maximum increases in household Council Tax bills by band.

Band	Capital Value range	Maximum Increase
A	Up to £40,000	£91
B	£40,000 to £52,000	£104
C	£52,000 to £68,000	£117
D	£68,000 to £88,000	£130
E	£88,000 to £120,000	£143
F	£120,000 to £160,000	£156
G	£160,000 to £320,000	£169
H	Over £320,000	£182

eligibility for the reduction was established. Thus a household with three Charge-payers would be less likely to qualify for a reduction in their Council Tax.

Since the impact of the Council Tax's introduction is differentiated, the effect of the scheme is also likely to be differentiated. The greatest effect of the Council Tax is likely to be felt in high capital value regions, particularly areas such as the Outer Metropolitan Area which previously had low Community Charge rates, since these areas are likely to experience the most significant tax changes. However, as previous chapters have shown, the design of the Council Tax itself, as well as that of the CTTRS, is likely to ensure that the effects of the scheme will be more distributionally complex. In particular, since the calculation of eligibility for the CTTRS takes account of the number of adults in each household, it is likely that its effects are differentiated by household type.

8.2.5 **Summary** : This discussion, drawing on the analysis of Chapter Five, has shown that there will be a number of influences upon the likely pattern of the local tax burden's redistribution arising from the transition from Community Charge to the Council Tax. As previous chapters have noted, the burden is likely to rise upon those in higher value properties, resulting in a broad increase in household tax bills in high value regions. The effect of the grant system's equalisation process, based on the number of Band D equivalent properties in each local authority ensures that this is so. The CTTRS is likely to moderate these effects in comparison with the longer term distributional patterns outlined and discussed in Chapter Five. In terms of household types, the following empirical assessment examines the extent to which the 25% reduction protects single adult households from the effects of the reintroduction of property taxation, as well as examining the influence of regional location on the extent of average tax changes for other household types. The effects of the geography of capital value are also considered for other types of households. The effects of the CTTRS are likely to overlie and further complicate this distributional pattern.

8.3 Modelling the Community Charge - Council Tax Transition

The following analyses are based upon modelling the introduction of the Council Tax on Nationwide Anglia data in the same way as has been used for previous analyses, though obviously the transitional relief scheme has also been included in the modelling process. Since the general distributional pattern of the transition to Council Tax has already been well established in Chapter Five, its examination here is relatively brief. Greater consideration is then given to the distributional effects of the Council Tax Transitional Relief Scheme.

8.3.1 **Tax changes with CTTRS : England level** : Table 8.2 gives the modelled average household bills for Community Charge and Council Tax for all households in

Table 8.2 : Average Community Charge, Council Tax bills, absolute and percentage tax change by region.

	Community Charge	Council Tax with CTTRS (£)	Tax Change (£)	% Tax Change
North	498.47	471.36	-21.11	-1.32
Yorks & H'side	446.91	446.69	-0.23	3.51
North West	521.33	512.17	-9.16	1.15
East Midlands	455.78	434.67	-21.11	-2.20
West Midlands	490.58	474.86	-15.72	-0.42
East Anglia	454.58	444.49	-10.09	0.74
Outer South East	441.02	436.44	-4.57	2.26
Outer Met. Area	463.11	494.33	31.22	11.40
London	476.73	505.39	28.66	15.35
South West	465.51	474.27	8.76	4.92
England	473.63	476.36	2.73	4.70

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

England and for its constituent regions after CTTRS has been taken into account. The inclusion of single person households lowers bills below 'averages' given elsewhere on the basis of two adult households. The average household Council Tax bill for England is £476.36, the CTTRS lowering the average from £488.15 given in previous chapters. This necessarily influences the average tax increase of £2.89 (compared with £14.68 without CTTRS), a figure which reflects the relatively marginal increase in local tax burden across all types of household in the shift between Council Tax and Community Charge. However, the subsequent analyses show how this small average tax change masks very substantial changes for some types of household and how those changes are influenced by regional location.

8.3.2 **Tax changes with CTTRS - Results for Regions** : As was discussed at the beginning of Chapter Five, the overall local tax burden has remained largely constant during the transition between Community Charge and Council Tax (Butler, Adonis and Travers, 1994). Because of this, it is possible to attribute regional patterns of tax change principally to the effects of the redistribution of the local tax burden , rather than to significant changes in local spending patterns

Since the regional distributions of both Community Charge and Council Tax shown in Table 8.2 follow those established in previous chapters, this section focuses more upon the differential incidence of tax changes arising from the transition. Though the average tax change for all households across England is an increased bill of £2.73, the regional pattern is striking in its reflection of the geography of capital value. Regional tax changes range from a gain (ie a decrease in average tax bill across all households) of £21.11 for the North and East Midlands to tax increase of £31.22 in the Outer Metropolitan Area. In percentage terms the largest gain is in the East Midlands with a percentage tax change of 2.20% whilst the largest loss is in London where bills increased by an average of 15.35%. With higher capital value areas such the South West, London and the Outer Metropolitan Areas all losing, in the case of the last two by substantial amounts, all other regions gain to varying degrees. Whilst the North, West and East Midlands make relatively large absolute gains, Yorkshire and Humberside and the North West do not. This pattern is replicated in percentage terms with Yorkshire and Humberside and the North West actually experiencing average tax increases.

8.4 Results by Household Type

It is clear that the general regional pattern of tax change changes will significantly vary between different types of households. In particular, regional average decreases in local tax are likely to mask tax increases for single adult households and reductions for multiple adult households. Table 8.3 shows tax changes for different types of households for all regions of England, whilst Table 8.4 shows the same figures as percentage tax changes. It

is clear that the experience of the shift from Community Charge to Council Tax is strongly differentiated by household type, as well as regionally.

8.4.1 **Single adult households** : The most striking feature of the tax change figures is that all single adult and parent households experience significant increases in local tax bills in the transition between Community Charge and Council Tax, irrespective of their regional location. Though both single adult and parent households paid a single Community Charge, the larger increases in local tax for single parents reflect the higher capital value of larger properties owned by parents. The scale of loss is significant, on average single adults and parents face tax increases of £63 and £71 respectively, effective increases of 25% and 27% on Community Charge bills, showing that the 25% reduction for single person households does not offset the tax increases produced by Council Tax.

The England average masks a regional pattern within which the geography of capital value significantly influences the extent of household tax increases. For both single adults and single parents the highest tax increases, in excess of 42%, are in London and the Outer Metropolitan Area. The explanation for these very significant increases in the Outer Metropolitan Area lies in the combination of previously low Community Charge levels and high capital value of domestic property which conspire to subject single adult households to high local tax increases. By contrast, similar households in low capital value areas have very much lower tax increases. The lowest tax increases are in the North and East Midlands. Average increases for these regions are almost half those found in London and the Outer Metropolitan Area at £44 and £35 or 15% and 13% respectively.

8.4.2 **Two adult households** : On average two adult households face a tax burden reduced by £27 or 4% under Council Tax. Through occupying smaller properties (and therefore of lower capital value) than family households, but not necessarily larger than single adult properties, two adult households are able to minimise their Council Tax liability. However, these relatively small tax changes figure mask regional differences. The largest gains are in East and West Midlands (£45 or 8.8% and £45 or 8.4% respectively), in absolute terms almost double the average gain for England. Despite its lower capital values, Yorkshire and Humberside has relatively small gains, comparable to those for London. Outer Metropolitan Area households which have virtually no change in their tax levels (£0.18 or 1.4%). The South West and London also make very small gains of £13 or 1.5% and £20 or 1.4%. The scale of gains are small in comparison with the losses experienced by single adult / parent households whose smallest increase is almost double the average level of gain for two adult households.

Table 8.3 : Average tax change between Community Charge and Council Tax (with CTTRS) by household type and by region.

	Single Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	43.96	-45.61	47.15	-33.44	-173.23	-21.11
YH	54.27	-22.42	59.65	-11.45	-167.74	-0.23
NW	47.21	-40.76	46.51	-15.43	-146.94	-9.16
EM	35.03	-45.59	50.09	-24.31	-197.56	-21.11
WM	51.41	-46.85	66.17	-19.89	-169.73	-15.72
EA	44.38	-29.84	73.55	-14.41	-137.73	-10.09
OSE	50.93	-31.69	72.58	-1.13	-174.89	-4.57
OMA	87.49	-1.23	101.77	47.86	-120.87	31.22
Lond	97.37	-20.22	108.54	33.05	-168.88	28.66
SW	57.96	-13.00	83.03	10.26	-140.78	8.76
Engl	63.12	-26.71	71.38	0.20	-158.59	2.73

Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

Table 8.4 : Average percentage tax change between Community Charge and Council Tax (with CTTRS) by household type and by region. (%)

%	Adult	Two Adults	Single Parents	Nuclear Family	Multiple Adults	All Groups
N	14.85	-7.61	15.88	-5.33	-22.00	-1.32
YH	21.24	-3.58	23.06	-1.50	-22.22	3.91
NW	15.37	-5.94	15.32	-1.93	-18.80	1.15
EM	13.06	-8.82	18.79	-4.60	-27.58	-2.20
WM	17.91	-8.37	23.20	-3.44	-23.54	-0.42
EA	17.75	-5.15	29.29	-2.12	-19.59	0.74
OSE	20.74	-5.83	28.85	0.24	-23.74	2.26
OMA	34.56	1.37	40.80	10.19	-14.90	11.40
Lond	43.29	-1.43	42.81	7.68	-18.54	15.35
SW	21.24	-1.49	30.57	2.51	-18.87	4.92
Engl	24.80	-3.96	26.93	0.78	-20.61	4.70

Data Source : Nationwide Anglia Building Society
Calculations : Author
N.B. Negative values imply a saving

8.4.3 **Nuclear family households** : The group for whom the shift from the Community Charge to Council Tax is most marginal is the 'nuclear family' type of household, i.e. two adults with children. Whilst the England column indicates that, on average, nuclear families have virtually no change in local tax levels (£0.33 or 0.22%), the difference in tax change between the regions of the Outer Metropolitan Area and the North is over £80. The nuclear family households living in the North are likely to pay £33 less than under Community Charge whilst Outer Metropolitan households will find their bills rising by almost £50. In terms of percentages these figures are less substantial, the percentage tax changes for the North and Outer Metropolitan Area being -5% and +10% respectively. This geography of tax change is apparent throughout the regions with the Outer South East, the South West and London households also experiencing losses, in London only marginally below those of the Outer Metropolitan Area. All other regions face reduced tax bills, particularly in the East and West Midlands.

8.4.4 **Multiple adult households** : Although this group makes up only a very small proportion of the Nationwide Anglia households, it is interesting to examine the effects of the Council Tax on these extreme cases. These households make substantial average gains of over £150 or 21% but the degree to which they gain depends very much upon regional location. As might be expected with its low Community Charge and high capital value the Outer Metropolitan has the smallest gains (£121 or 15%) whilst those resident in East Midlands stand to gain most with a reduction of almost £200 or 28% in average bills.

8.4.6 **Results by household type - Summary** : This analysis has shown that the redistribution of the local tax burden in terms both of household types and geographically produces a pattern of tax change far more complex than the crude figures for all types of households might have suggested. The experiences of the introduction of the Council Tax are strongly differentiated by type of households, much more so than by regional location. However, regional location is an influential factor in determining the significance of the tax changes. The following section considers in greater detail the role of the CTTRS in determining the differential impact of those tax changes.

8.5 Distributional impact of the Council Tax Transitional Relief Scheme

The Council Tax Transitional Relief Scheme operates through limiting increases in local tax bills according to Council Tax band. Since tax increases are differentially distributed across household types and regionally, the effects of the CTTRS will be similarly distributed. The effects of the CTTRS itself (rather than the transition from Community Charge alone) are also likely to influenced by both capital value and household type. As Table 8.1 showed, the CTTRS limits maximum tax increases to between £91 for a Band A property and £182 for a Band H property. Assuming both a broad correlation between

income and capital value and a reasonable reflection of that relationship in Council Tax banding, is immediately apparent that CTTRS is likely to increase the Council Tax's existing degree of regressiveness. This arises from the difference between the Band A and Band H maximum allowable tax increases, Band H being double that of Band A,whilst the equivalent ratio in terms of capital value is 16 times. The CTTRS is therefore likely to give greater relief both proportionally and in absolute terms to more expensive properties and therefore to higher income households. However, the related geographies of capital value and income make the distribution of this relief uneven. To complicate this distributional pattern further, the scheme also takes into account the number of adults in a household. Thus single adults are given relief through CTTRS as well as through the 25% reduction. Since the number of Community Charges is taken into account, households with more than two adults have limited eligibility for relief (although as the previous section showed, this group will still have significant reductions in local tax liability).

In order assess the distributional impact of the CTTRS the following analysis is based upon the two reaggregated household types - Single Adult and Two or More Adult households - used in previous chapters. This allows consideration of the effects of the 25% reduction in concert with CTTRS on Single Adult households. The modelling procedure is identical to that outlined in previous sections.

8.5.1 **CTTRS and household types** : The previous section showed that despite the 25% reduction for Single Adults, such households still experienced substantial tax increases in comparison with other types of households. This section considers the protection offered by the CTTRS to Single Adult households in comparison to that offered to Two or More Adult households. Tables 8.5 and 8.6 show the difference between Council Tax bills with and without the effect of the CTTRS in absolute and percentage terms respectively, for Single Adults by income group and by region. Tables 8.7. and 8.8 give the same figures for Two or More Adults. The percentage figures allow the effects of differences in regional tax rates to be abstracted. It should be noted that, unlike previous tables, all values imply a reduction in tax despite values not being signalled as negative. Because the patterns displayed in these tables are very similar to one another, except in magnitude, the analyses following this section are arranged thematically, drawing examples from the tables as necessary.

Although the England average absolute reductions in tax levels for all income groups are similar for Single and Two or More Adult households (£13 and £11 respectively), in percentage terms the difference is more pronounced with 2.6% and 1.4% reductions in bills. This implies that the combination of a single Community Charge, the 25% Council Tax reduction and the CTTRS provides Single Adult households with a greater degree of protection, both in absolute and percentage terms, than Two or More Adults households

Table 8.5 : Average difference in Council Tax bills with and without CTTRS by income group and by region for Single Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	0.76	1.21	7.04	17.67	32.30	27.24	39.67		124.47	6.63
Y&H	1.58	1.72	6.03	17.73	29.43	26.85	74.26	105.41	104.78	7.20
NW	2.41	1.74	8.69	25.03	54.60	71.48	84.37	92.02	162.96	11.62
EM	1.11	0.73	2.28	6.43	11.81	63.67	35.62	24.01	106.46	4.30
WM	0.72	2.53	4.77	19.37	36.89	36.07	75.14	91.98	138.09	9.42
EA	0.00	0.71	2.56	4.09	19.40	16.40	18.99	0.00	32.75	5.34
OSE	4.19	2.50	1.78	5.34	10.18	19.03	28.95	32.94	60.32	6.42
OMA	12.04	10.51	14.78	17.00	14.66	30.95	47.70	56.95	91.27	20.17
Lond	27.02	22.01	13.89	20.83	17.92	26.09	36.73	86.50	113.98	26.92
SW	3.72	5.16	4.25	15.89	21.91	35.84	51.29	49.92	71.12	10.28
Engl	3.31	3.62	7.22	16.18	19.62	30.42	44.60	73.54	100.53	13.19

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 8.6 : Average percentage difference in Council Tax bills with and without CTTRS by income group and by region for Single Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	0.16	0.25	1.36	3.34	5.61	5.34	7.24		19.81	1.24
Y&H	0.39	0.41	1.37	3.64	5.93	5.18	12.12	17.76	16.46	1.49
NW	0.43	0.34	1.54	4.46	8.90	11.72	13.03	14.78	22.17	1.97
EM	0.23	0.16	0.46	1.30	2.36	10.80	6.47	4.44	16.99	0.81
WM	0.16	0.52	0.97	3.61	6.58	6.48	12.80	15.00	21.27	1.73
EA	0.00	0.18	0.55	0.87	3.97	3.85	4.01	0.00	6.96	1.15
OSE	0.82	0.50	0.36	1.04	2.05	3.56	5.51	6.71	10.58	1.24
OMA	2.76	2.07	3.56	3.42	3.26	5.79	9.07	10.48	15.90	4.12
Lond	5.25	4.44	2.73	4.21	3.95	5.29	7.33	15.72	21.33	5.34
SW	0.66	0.92	0.83	2.92	4.17	6.40	8.56	9.54	12.31	1.89
Engl	0.67	0.73	1.49	3.16	3.97	5.74	8.24	13.18	17.77	2.55

Data Source : Nationwide Anglia Building Society
Calculations : Author

which previously paid two Community Charges and full Council Tax with CTTRS in place.

Overall, CTTRS relief increases in absolute and percentage terms for each household type as income rises, although at a higher level for Single Adults. This arises from the broad correlation between income and capital value, as capital value rises so the degree of protection offered by CTTRS increases. However, there are significant differences within these general trends. At lower levels of income the upward trends are broadly similar, although with greater protection for Single Adults. For incomes above £350 the trends diverge so that at the £850+ income group Single Adult households are protected from the full impact of Council Tax to the extent of £100 or 18% whilst Two or More Adult households experience reductions of only £31 or 7%. This trend will be returned to in a subsequent section. The correlation between these patterns at the regional level for all income groups is close although the level of protection is noticeably higher in percentage terms for Single Adults in the very highest capital value areas such as London and the Outer Metropolitan Area.

8.5.2 **CTTRS at the regional level** : The CTTRS effects have a distinct regional geography, but that geography is differentiated by income group. CTTRS has relatively little effect on Council Tax bills over all income groups in the lower and average value areas such as the North, East Midlands, East Anglia and the Outer South East. East Midlands households are those which experience the lowest reductions in bills, 1.15% and 0.55% for Single and Two or More Adults respectively. As previous sections showed, in these and similar regions the Council Tax's introduction had the least impact. CTTRS benefits most the highest capital value regions, London and the Outer Metropolitan Area. Both in absolute and percentage terms, these regions have considerably larger reductions in Council Tax than other regions. On average Council Tax bills for Single Adults in London are reduced by over 5% and 4% in the Outer Metropolitan Area. North West households gain more from CTTRS than those in neighbouring regions. This may be partly due to a combination of influences. The North West has marginally higher capital values than neighbouring regions which will have created larger tax changes in the transition from Community Charge. This will have been accentuated by the prior low rates bills which led to households in the region being protected from large changes in tax bills by the Community Charge Reduction Scheme. Ironically, the pattern of tax change created by the Council Tax and its reduction scheme is, in part, related to the pattern of local tax distribution under the rates system !

A second element in the region's relatively greater benefit from the CTTRS may be partly due to its relatively high tax rates (and therefore bills). Because the CTTRS maximum tax increases are set in cash terms (rather than a proportion of bills under Community Charge),

Table 8.7 : Average difference in Council Tax bills with and without CTTRS by income group and by region for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	2.00	1.41	1.97	4.12	12.89	15.71	26.97	61.29	87.20	7.88
Y&H	1.33	1.14	2.00	3.64	10.75	19.87	32.22	59.80	72.86	7.92
NW	4.31	3.35	3.15	6.55	15.35	35.17	54.54	98.60	103.18	14.01
EM	0.00	0.84	0.44	1.03	4.05	10.32	22.86	29.73	63.36	4.72
WM	3.03	1.12	2.00	4.56	7.48	15.59	36.60	46.42	77.49	8.13
EA	0.40	0.00	0.75	2.07	3.16	8.06	14.26	29.09	39.09	5.31
OSE	2.55	2.33	1.61	2.59	3.77	8.55	13.95	21.31	40.73	6.85
OMA	12.42	14.74	10.54	14.81	14.00	17.98	22.52	36.24	62.72	21.02
Lond	35.05	8.44	7.16	9.40	9.34	8.34	9.88	22.49	54.59	15.36
SW	3.39	2.16	1.81	3.58	8.22	15.90	24.73	31.51	60.53	8.06
Engl	4.01	2.64	2.72	5.45	9.58	14.93	21.33	35.75	31.03	11.30

Data Source : Nationwide Anglia Building Society
Calculations : Author

Table 8.8 : Average percentage difference in Council Tax bills with and without CTTRS by income group and by region for Two or More Adult households.

	£0-£150	£150-£250	£250-£350	£350-£450	£450-£550	£550-£650	£650-£750	£750-£850	£850+	All Groups
N	0.22	0.24	0.28	0.54	1.48	1.72	2.92	6.29	8.91	0.91
Y&H	0.18	0.14	0.25	0.46	1.30	2.42	3.84	6.97	8.13	0.95
NW	0.47	0.47	0.43	0.77	1.66	3.67	5.72	10.01	10.20	1.52
EM	0.00	0.10	0.05	0.13	0.48	1.19	2.71	3.48	7.22	0.55
WM	0.37	0.13	0.23	0.54	0.88	1.81	4.14	5.31	8.57	0.93
EA	0.51	0.00	0.12	0.30	0.44	1.08	1.84	3.67	5.14	0.71
OSE	0.37	0.26	0.21	0.35	0.49	1.09	1.80	2.73	4.99	0.87
OMA	1.87	2.69	1.75	2.40	2.21	2.45	2.87	4.42	7.36	2.90
Lond	5.12	1.04	0.97	1.25	1.18	1.06	1.30	2.76	6.70	1.93
SW	0.43	0.25	0.22	0.46	1.01	1.88	2.91	3.87	6.85	0.97
Engl	0.52	0.38	0.38	0.75	1.26	1.84	2.57	4.19	7.06	1.41

Data Source : Nationwide Anglia Building Society
Calculations : Author

more households in the North West will be eligible for relief at a given percentage rise in tax bills than in other regions, thus giving rise to greater overall average relief. The converse would be equally true for regions such as East Midlands and East Anglia with relatively low tax rates.

8.5.3 **CTTRS and income groups** : The broad pattern of the CTTRS's distribution suggests that rather than protecting vulnerable lower income groups from tax increases, the design of the scheme affords a greater absolute and percentage protection to higher income groups. Some high income groups, particularly those living in Single Adult households have significant reductions in their Council Tax liability, in the case of those in London with incomes over £850 by more than 20%. As a result, the scheme further compounds the Council Tax's regressiveness, albeit temporarily.

A number of trends are apparent from the distribution of the CTTRS effects across income groups at the regional level. Although there are differences in level of CTTRS effects in the lower value regions, there is a common upward progression from the lowest levels of income. This is best seen in Yorkshire and Humberside and the West Midlands. The pattern across income groups for London and the Outer Metropolitan Area is rather different. For these regions, in both types of household, the level of protection remains virtually constant until relatively high levels of income are reached, when relief begins to rise steeply. In the Outer Metropolitan Area the percentage figure for Single Adults varies only by 2.5% until the £550 to £650 income group, after which relief increases rapidly. This provides further evidence of 'threshold' Council Tax liabilities. Lower income groups are pushed into properties with values above the more usual relationship between income and capital value, resulting in a high (relative to income) Council Tax liability. The relief offered by the CTTRS is therefore virtually constant until the more usual relationship between income and capital value is restored.

The second noticeable pattern is that the degree of relief at the higher levels of income is greater in lower value regions than in high value regions. There is a contrast in percentage terms for example between the North and North West, and London and the Outer Metropolitan Area. The explanation for this pattern may lie in differences in capital values. In lower value regions, higher income groups may be able on average to occupy higher banded properties than their southern counterparts, leading to their higher CTTRS eligibility. Clearly, because of the regional distribution of income the very high level of relief provided to the highest income groups in low value regions will affect fewer households than the lower level of protection in high value regions.

The third pattern relates to the rate of increase in relief relative to income. This is best seen in percentage terms. For both types of households there is a point in the income

distribution where the degree of protection rendered by the CTTRS rapidly increases, more than doubling its level in the previous income group. This point varies between regions, being lower in low value regions and higher in higher value regions, although because of threshold Council Tax liabilities, this does not occur in either London or the Outer Metropolitan Area. This arises because of the relatively rapid increases in tax experienced by above average income groups occupying higher band properties. Although eligibility for CTTRS is judged on the basis of Council Tax banding, the relationship between capital value and income ensures that greater relief is given to higher income groups.

8.6 Conclusion

This chapter has focused on the distributional implications of the introduction of the Council Tax, particularly those arising from the Council Tax Transitional Relief Scheme. The redistribution of the local tax burden implicit in this transition has been shown to be far more complex than the model of redistribution suggested by the rates / Community Charge transition. The pattern of redistribution across household types shows that although for two adult and family-type households the Council Tax's introduction has little distributional impact, single adults and single parents (a group making up over 25% of all households) experience considerable tax increases. This household type distribution has been shown to be significantly differentiated by regional location. Analysis on a geographical basis has shown that the simple England average, which suggests only very marginal change in the transition between the taxes, conceals wide differences in experience of the Council Tax for similar households in different parts of the country.

The effects of the Council Tax Transitional Relief Scheme serves to compound the Council Tax's regressiveness by limiting tax changes, particularly for households with high incomes in high capital value areas. The analysis shows that because of the relationship between capital value and income, higher income groups gain more both proportionally and in cash terms than lower income groups from the CTTRS. In providing a generous cushion against large tax increases, the CTTRS undoubtably achieved the political objectives of a government which had been chastened by the Community Charge experience. But in distributional terms this relief is significantly regressive and has served to offer the greatest degree of protection to precisely those households which had previously gained most from the introduction of the Community Charge (in some cases very substantial gains). However, although the scheme will be phased out over time, even without the CTTRS the Council Tax will remain a regressive tax.

Chapter Nine

Conclusion

9.1 Introduction

This final chapter draws together the work of the thesis and summarises the findings of the empirical distributional analyses of the Council Tax. The chapter then considers the work of the thesis in the broader context of local government finance and local government more generally. The final section briefly discusses in more detail the problems of the Council Tax and its role as part of a longer term solution to the continuing difficulties of the local government system.

9.2 Summary of Findings

This thesis has presented a detailed geographical and household level analysis of the distribution of the Council Tax. The distributional consequences of the Council Tax have been examined along a number of analytical axes - household type, geographical location and income group. The thesis's empirical work has centred upon a number of distributional models of the Council Tax based on data provided by the Nationwide Anglia Building Society, which have not been used previously in the analysis of local government finance. Although the distributions of local taxes have been studied from as early as the nineteenth century (Goschen, 1872) through to present day studies of the Council Tax (e.g. Hills and Sutherland, 1992), very few studies have been able to examine these issues in any detail below the national level (a notable exception being the Layfield Committee's investigation of the distribution of the rates; Layfield Committee, 1976). Spatial analyses below the national level have been largely confined to micro-level studies of individual areas (e.g. Burnett 1989, 1990 on the Community Charge in Portsmouth; Martin, Longley and Higgs, 1992 on the Council Tax in Cardiff). The Nationwide Anglia data has afforded this thesis the unique opportunity of examining the detailed geographical distribution of the Council Tax, and the implications of the transition from Community Charge to the Council Tax at the regional level. Despite the very extensive Nationwide Anglia dataset, it must be recognised that this distributional analysis has not been exhaustive. As with all sources of data, there is a trade-off between the degree of geographical detail a source of data can provide and the degree of detail in terms of household income. Because of this, the analyses based on the Nationwide Anglia data record only mortgaged households, although such households comprise 76% of England's population (OPCS, 1991). Nevertheless, one of the most important implications of the thesis's empirical work is that local taxation is an innately geographical phenomenon and

that analysis on a spatial basis is essential to a fuller comprehension of the distributional issues of local taxation.

9.2.1 **Distribution of the Council Tax :** Chapter Two discussed the theoretical concepts of public finance theory. These concepts provided an analytical 'vocabulary' with which to consider the issues surrounding British local taxation. Having traced the broader political and economic contexts of Council Tax's predecessors, the rates and Community Charge, Chapter Two discussed the taxes' theoretical rationales in the light of public finance theory. Chapter Three then considered the Council Tax in some depth. A number of issues were raised by this discussion, in particular the hybrid nature of the tax, its use of capital value as a tax base, its relationship with other elements of the local government finance system and the likely implications of the transition between Community Charge as a per capita tax and the Council Tax as a predominately capital value tax.

Chapter Four considered a variety of methodological approaches to the analysis of fiscal incidence before discussing the actual methodology employed in the thesis's empirical analyses and the Nationwide Anglia data on which those analyses were based. The first of the analyses, presented in Chapter Five, represents the heart of the thesis's analysis of the Council Tax. From this analysis a number of further issues were raised. These issues formed the focuses of more detailed empirical analysis in subsequent chapters.

Chapter Five presented a detailed 'standard' distributional analysis of the Council Tax across different types of households, across the regions of England and across income groups. As the examination of the tax's design suggested in Chapter Three, the Council Tax's distribution is determined by a complex interplay of influences which its superficial appearance as a relatively simple property tax belies. These influences - the tax's complex hybrid design, the equalisation process of the grant system, the geography of capital value and regionally differentiated tax rates - all have differential distributional consequences at different levels of income, for different types of households in different parts of the country.

One of the chief findings of the thesis is that, like the rates system, the Council Tax is a regressive tax, confirming the conclusions reached by other studies (e.g. Hills and Sutherland, 1992). The significance of regressiveness in local taxation has been widely debated. Foster (1986) has argued, in defence of the Community Charge, that the fiscal incidence of an individual tax is unimportant, only the overall incidence of the total tax burden should be regarded as distributionally significant. The tax and benefit systems should be used to compensate for the incidence of the tax burden in order to meet the objectives of social policy. However, within a system of local taxation, the tax burden

across similar income groups can and does vary significantly - but national level policy can only compensate for 'average' distributional consequences rather than for localised variations. In the absence of localised social policy, the regressiveness or progressiveness of local taxation remains spatially differentiated. The importance of this issue is clear from the geographical analysis of the distribution of the Council Tax. Unlike previous national level analyses, the regional analysis shows that Council Tax's regressiveness is not uniform but is geographically differentiated. Through a combination of the grant system's equalisation process, the imprecise relationship between income and capital value, as well as the inconsistencies in this relationship in higher value areas, a higher Council Tax burden (relative to income) is imposed in higher capital value regions. Beyond the theoretical debates regarding the nature of property taxes and their place in the fiscal system (but see Davis and Kay, 1985; King and Atkinson, 1980; Ridge and Smith, 1991; Smith and Squire, 1987), the regressiveness of Council Tax has significant implications for local government as a whole. These implications are briefly discussed in the final section of this chapter.

9.2.2 **Resources effect** : Chapters Six and Seven examined the distributional issues arising from Council Tax's use of capital value as tax base and in particular its interaction with Council Tax banding. Chapter Six discussed the resources effect in some detail, focusing on the implications of capital value as a tax base at the local authority level. The distribution of capital value ensures that because spending above SSA is unsupported by central funds (i.e. partial equalisation), the ability to raise revenue is differentially distributed. The analysis showed that for a uniform increase in household Council Tax bills, Band D tax rates will differ significantly across local authorities according to the proportional size of their tax bases. This differentiation of Band D tax rates caused by the resources effect is not confined to broad regional patterns, substantial variations are also likely between neighbouring local authorities. In circumstances where local authorities had a greater degree of discretion to spend above SSA, this could lead to considerable differences in Council Tax bills for similar properties in neighbouring authorities.

9.2.3 **Council Tax as a household tax** : Chapter Seven examined the implications of the Council Tax banding system and its imperfect reflection of the relationship between income and capital value. The concentration of a majority of properties (in some local authorities an overwhelming majority) into the lowest Council Tax bands, produces a tax which is levied more as a flat-rate, household charge, akin to the Community Charge than as a more progressive property tax. In these areas, the Council Tax can become almost as regressive as Community Charge. Whether by accident or by design, Band A's upper capital value threshold serves to impose an equivalent 'threshold' level of local tax liability on all households, irrespective both of income (above Income Support levels) and of capital value of domestic properties below £40,000. The analyses in Chapter Seven found

evidence to suggest that higher capital value thresholds exist in regions such as London and the Outer Metropolitan Area. Because of this, Council Tax represents a greater proportional burden for lower income groups in these areas than their counterparts in lower capital value regions.

9.2.4 **Council Tax Transitional Relief Scheme** : Chapter Eight's analysis of the tax changes produced by the implementation of the Council Tax taking into account the Council Tax Transitional Relief Scheme (CTTRS) showed that the very marginal change in tax levels suggested by the England average for all household types and income groups conceals very wide differences in experiences of the new tax. Although the Council Tax's introduction has had little distributional impact on two adult households and nuclear families, the tax changes for single adult and multiple adult households are considerable. Analysis of these tax changes for similar households on a geographical basis suggests that the 'average' household experience is significantly differentiated across the country. Single adults living in high capital value areas experience far greater increases in local taxation than their low value area counterparts, despite the CTTRS. The CTTRS compounds the geographically differentiated regressiveness of Council Tax analysed in Chapter Five by limiting tax changes for properties in high value areas. The design of the scheme, combined with the relationship between income and capital value, ensures that higher income groups are offered a greater degree of protection by the scheme than lower income groups. Whilst the CTTRS met the political imperative of avoiding controversy on the Council Tax's introduction, its distributional effect was to provide a generous, albeit temporary, financial cushion to precisely those households which had gained most from the Community Charge.

9.3 Council Tax and the Local Government Finance System

The Council Tax was rapidly designed and implemented by a government seeking to cast the Community Charge albatross from around its neck. In terms of returning local government finance to the political backwoods the policy has been a success. However, the Council Tax in the long term has a number of significant problems. One of the most important is that of horizontal inequity. By its nature, capital value as a tax resource is unevenly distributed, making an equalising grant system essential to allow authorities with different spending needs and tax raising capacities to set similar tax rates. But even with full needs and resources equalisation providing for a uniform tax rate, tax bills will still differ for similar households living in different parts of the country because of the geography of capital value. Of more immediate significance is the current grant system's partial equalisation. The system, as constituted at present, does not equalise for spending above SSA. The significant implication, highlighted in Chapter Six, is that if in future local spending is allowed to rise, the resources effect will potentially create large differences in local tax bills for similar households both within and between regions.

At present Council Tax raises less than 15% of local revenue, a proportion viewed as undesirably low even in Whitehall and Westminster (Jones and Travers, 1994). Yet the design of the Council Tax inhibits any substantial increases in the proportion of local government revenue the tax raises. Because the Council Tax is inherently regressive, even with a grant system achieving full rather than partial equalisation, any substantial increase in the Council Tax's yield would significantly accentuate the tax's regressiveness. Although the lowest income groups are fully protected from the impact of such an increase, rises in Council Tax bills would disadvantage most those with incomes just above Income Support levels. Because of these distributional consequences of increased local spending, the introduction of the Council Tax ensures that close central government supervision of local spending will continue.

Faced with these difficulties in raising more revenue from the Council Tax, it is more likely that central government will seek alternative means of increasing the proportion of locally raised revenue. The most likely alternative is the removal of one or a number of local government's funding responsibilities - education, fire and police services being the favoured candidates (Jones and Travers, 1994). As a further alternative, there is growing support for a greater degree of local control over Non-Domestic Rates, not least to give authorities a reason for encouraging local economic development and to maximise local non-domestic rates revenue (Hall and Smith, 1994).

The issues discussed above have been related specifically to the difficulties of the Council Tax. However, these difficulties are both reflected in, and are reflections of, the broader relationship between central and local government. This relationship has been undermined by the conflict between the very broad spending responsibilities of local government and the absence of an appropriate financial system with which to meet those responsibilities. The failure of the Community Charge presented central government with an opportunity to resolve this basic deficiency in the British local government system. Although the Council Tax has won general public acceptance (largely due to a generous transitional relief scheme) the new tax is deeply flawed - the tax is regressive, it raises only a small proportion of total local revenue, it fails to promote local accountability and any significant increases in revenue raised from the tax are likely to be deeply unpopular. The Council Tax was produced as a 'quick fix' by a government smarting from the Poll Tax fiasco and, unfortunately, does not represent a long-term solution to the difficulties of local government.

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Appendix 1

Nationwide Anglia data variables

DIST	District Code
GRIDREF	1km grid reference (not used in thesis)
DECMONTH	Month of initial mortgage approval
DECYEAR	Year of initial mortgage approval
TYPESEC	Property type
TENURE	Tenure
PREVTEN	Previous tenure
GARAGE	Garage / parking
CENHEAT	Central heating
RECEPT	Number of reception rooms
BED	Number of bedrooms
BATH	Number of bathrooms
PRICE	Sale price
BELOWMKT	Below market price sale
PROPAREA	Superficial floorspace
TYPEAREA	Measurement code
SITEAREA	Area of site
TYPSAREA	Measurement code
CONSDATE	Construction year
SITEVAL	Estimated site value
VALUATN	Surveyors valuation
MARSTAT	Marital status
SEXFIRST	Sex of first named
AGEFIRST	Age of first named
AGESECND	Age of second named
INCFIRST	Weekly income of first named
INCSECND	Weekly income of second named
JOINTINC	Based on joint income
TERM	Term of years (of mortgage)
REPAYMNT	Monthly repayment
RATES	Rates monthly payment
MORTTYPE	Mortgage type
KID1	Number of dependent children 0 - 5 years
KID2	Number of dependent children 6 - 10 years
KID3	Number of dependent children 11 - 15 years

KID4	Number of dependent children 16 - 20 years
KID5	Number of dependent children 21+
OCCODE	Occupation of first named
SHROPERC	Shared ownership
PRLENOCC	Years at previous address
PRDISMOV	Distance of previous address
COUNHOUS	Council house
SHAROWN	Shared ownership
DEPOSIT	Deposit
HOUSING	Household income
TOTROOMS	Total number of rooms
TOTKIDS	Number of dependent children
TOTOUTGO	Total outgoings
BASICADV	Basic advance
TOTALADV	Total advance
PERCADV	Advance as % of cost of house
FAMCYCLE	Stage of family cycle (marital status and age of youngest child)
FAMTYPE	Type of family (marital status and number of children)