



Spatial Economics Research Centre

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Council Tax increases

I know I am hardly the first person to point this out, but local government finance in the UK really is a mess (I was reminded of this by today's stories or [council tax increases](#)). I wonder whether the government realise that failure to sort this out has major implications for the extent to which any serious decentralisation can take place.

Take New Homes Bonus, for example. This is the payment that is supposed to provide incentives to local governments to allow more house building. At best, unfortunately, the NHB (double council tax for six years) offsets the direct costs to LAs of allowing more house building. So NHB removes the disincentive, but doesn't provide any positive incentive (which you tend to need to offset local objections). In other countries, this incentive comes from the fact that local tax revenues increases as population expands. In the UK, where council tax only covers, at best, about a fifth of local government expenditure that incentive is essentially non-existent.

Business rate retention has similar problems. The pro-growth incentives are dampened by the fact that periodically the system will be reset wiping out any increased revenues. That wouldn't happen if local tax revenues were more firmly linked to the local tax base.

I suspect that the government is about to run up against similar problems with some of the Heseltine proposals. It's great that the government is seriously considering moves towards a 'single pot' that would allow local authorities more flexibility over spending decisions. But some of these LAs will make decisions that end up costing money. With a different local tax system they would face strong pressures to deal with this failure because a good proportion of those costs would fall locally. Instead, under the existing system central government will almost certainly end up picking up the bill for LA failure.

In short, serious decentralisation almost certainly requires reform of local government financing to increase the importance of local tax bases. This, of course, has the potential to generate winners and losers - a very difficult proposition for government to deal with.

Posted by [Prof Henry G. Overman](#) on [Thursday, February 28, 2013](#)

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