

Dadansoddi ar gyfer Polisi



Analysis for Policy



Llywodraeth Cymru
Welsh Government

SOCIAL RESEARCH NUMBER:

18/2016

PUBLICATION DATE:

24/03/2016

Evidence Review – Systems of Local Government Finance, Local Taxation and Resource Allocation

Evidence Review – Systems of Local Government Finance, Local Taxation and Resource Allocation

Mike Bennett, Tim Allen and Clive Grace
UK Research and Consultancy Services Ltd

(Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government)

For further information please contact:
Clare Blake
Education & Public Services Department
Welsh Government
Cathays Park
Cardiff
CF10 3NQ
Tel: 029 2082 3928
Email: clare.blake@wales.gsi.gov.uk
Welsh Government Social Research, 2016

Table of contents

Acknowledgements	2
1. Executive Summary	3
2. Introduction.....	10
3. The Brief and Methodology	12
4. Understanding the Welsh Context.....	16
5. Balance of funding.....	24
6. Local taxation and revenue raising	34
7. Resource allocation and distribution.....	46
8. Principles of change	52
9. Conclusions: Judgements and Enduring Dilemmas	56
Annex 1: A review of normative tax-grants theory	61
Annex 2: International comparison of property taxes imposed and distribution of property tax revenues	632
Annex 3: Designing and implementing property tax reform	654
Annex 4: Interviews conducted.....	676
References and Key Sources.....	687

Acknowledgements

We are very grateful to the small number of experts we interviewed as part of our research, Professor David Heald, Professor Tony Travers, Rob Whiteman and David Philips. We benefited greatly from our conversations with them and we thank them for being so generous with their time and ideas.

We were also aided by discussions with the Minister for Public Services and the Future Finance Panel that he chairs. This dialogue helped develop and challenge our review and ensured that we were focused on real issues being faced in the Welsh context.

Finally we would like to express our gratitude to officials in the Welsh Government, Clare Blake, Debra Carter and Ceri Greenall, for their guidance and comments on earlier drafts.

While we recognise the input of all those mentioned, the views expressed in this report are those of the research team, and not necessarily those of the Welsh Government or of any other party.

Mike Bennett

Tim Allen

Dr Clive Grace OBE

UK Research and Consultancy Services, February 2016

1. Executive Summary

Introduction

1.1 This evidence review stems from the Welsh Government reform programme for Local Government in Wales. The programme follows from recommendations made by the Commission on Public Service Governance and Delivery (the “Williams Commission”) in January 2014, and subsequent consultation and policy development on reform through a series of Welsh Government White Papers that set out proposals for the reform of Welsh Local Government including the proposed restructuring into fewer, larger councils as well as other reforms in relation to culture, leadership, performance and corporate planning.

1.2 In the context of this ongoing reform programme for Welsh Local Government, this Review examines the existing base of knowledge and research to establish how far it might inform potential options for the future funding and finance of Welsh local government and local public services.

Approach

1.3 The Review examined a substantial UK and international literature covering official papers, academic studies, high level reviews and commissions and sources drawn from practice and experience. These sources were sifted by applying a set of broad criteria to judge potential relevance and applicability to the Welsh context. A small number of experts were interviewed to validate that the Review was exploring the most relevant lines of inquiry. Section 3 sets out the Review’s methodology in detail. Section 4 outlines the Welsh context and highlights some of the key factors applied to test the evidence for relevance and transferability.

Balance of funding

1.4 Section 5 explores the issue of funding balance in local government. This is a long-standing issue for local government in Wales, in the rest of the UK as well as at an international level and has a significant accompanying body of research. This section reviews the theoretical and normative perspectives for and against greater autonomy and examines some of the trade-offs implied by the tension between local autonomy and social equity. This section also looks at how the funding balance works in practice and considers some possible options for change.

1.5 At an international level there are many and varied systems of local finance and funding and no consistent approach which is immediately transferable to Wales. The evidence shows major differences in systems of taxation, the amount of revenue raised as a proportion of total national tax, the proportion of self-financed revenue and the responsibilities that local authorities hold. Among and across these there are also complexities of status and powers, so simple comparisons should be treated with caution.

1.6 Local government in Wales is characterised by relatively high central control and influence (through a combination of UK as well as Welsh Government powers) and relatively low levels of fiscal autonomy. In addition, Welsh local government is highly reliant on a single source of local tax (the council tax) in a way which is relatively unusual by international comparison.

1.7 Any changes in the balance of funding need to be based on the form and functions defined for the relative roles of local and central government. Central and local governance in democracies are fundamentally interdependent so designing systems and accountabilities need to take this into account.

1.8 There are two particular dimensions that impact on decisions about the balance of funding. The first is the extent to which fiscal devolution is a causal factor in good and responsive local government. On this view, decentralisation to the lowest level is a necessary condition for strong local democracy. The counter holds that sub-national governments are subject to relatively ineffective democratic accountability and scrutiny and are prone to capture by elites or interest groups. These groups govern through the filter of their interests not the community's. The extent to which the latter exists or is a risk may condition a need for strong external challenge and regulation from the centre or independent sources, and for measures to improve local democracy.

1.9 The second issue that influences the transferability of experience is the extent to which equalisation is possible and necessary. Most of the evidence finds that equalisation is fundamental to fairness. However, there is a notable critique of equalisation suggesting that it leads to dependency rather than self-sufficiency.

1.10 The evidence also suggests that the challenge of equalisation is related to the scale of the local government unit. Where the governance footprint is larger, local governments tend to have greater capacity to redistribute internally. Nevertheless, divergent social, economic and demographic conditions across Wales suggest that further work may be needed to establish how far this will be the case for a reformed Welsh local government.

1.11 One option to increase locally raised finance is to introduce or increase charges for services. There is a basis in economic theory for charging for

services, and evidence that for at least some services, the public will accept charges as reasonable. However, the evidence also indicates conditions where charging may not be appropriate and where, for example, public good concerns, or those for equity and redistribution, make charging less effective.

1.12 It is a political judgement as to who ought to bear any new burdens implied by such changes, the extent to which there is a trade-off between charging and other taxation, and what constitutes the right balance between taxpayer funding and user-charge.

1.13 Also, whilst charging has been extended over time, where major savings are needed, local government has tended to outsource or ration service through eligibility criteria to reduce public sector support, rather than levying substantial additional charges so that support can continue to be provided directly by the public sector.

Local taxation and revenue raising

1.14 Section 6 explores potential options for local taxation reform. It examines the wide variety of practice from international evidence across OECD countries and identifies potential principles that might guide change. Specifically the Review considers the case for and against a local income tax and what the implications might be. This section also looks at options for change regarding non-domestic rates or business taxes, reviewing experience and evidence from across the UK. Property taxes are also examined from theoretical and practical perspectives including consideration of international property reform experience.

1.15 Property taxes are widely used in local governments internationally though they generally form a smaller part of local government revenues than in the UK. They are favoured for their clear tax base, because they are difficult to avoid and because they promote local autonomy. Arguments against property taxes focus on taxpayer resistance, the challenges of regular revaluation and the absence of a direct relationship between liability and ability to pay. There is a significant literature related to potential reform of the council tax. Proposals for potential reforms are relatively consistent in proposing more council tax bands and specific measures to address equity in relation to low incomes, coupled with regular and improved systems for revaluation.

1.16 Given that UK and Welsh local government is unusually reliant on a single form of local taxation (council tax), successive examinations have considered alternatives and additions since the Layfield Committee's review in

1976. Many conclude that there is a case for a local income tax and that it is a viable potential major new source of income for local authorities.

1.17 Advocates argue that income taxes are 'fairer' than property taxes in that liability more closely reflects ability to pay. Others suggest that a significant shift from property-based tax to income tax means a rebalancing of the tax burden away from retired households with accumulated wealth and onto the working-age population. Also, income taxes can be more volatile than property taxes so local finance systems that rely on them may need capacity to adjust for fluctuations, for example through negotiations with central government over finance or substantial borrowing powers.

1.18 Local income tax is a potential means to diversify the local tax base and increase buoyancy, but evidence suggests it is unrealistic to expect it to support significant overall spending growth. Upward pressure on local income tax rates could be as controversial as increases in council tax bills.

1.19 Non-domestic rates reform is another key potential element for greater local fiscal autonomy. The Morgan Review in Wales (Morgan 2012), the Independent Review of Local Government Finance in England (ICLGF 2015) and very recently the current Chancellor of the Exchequer (Osborne 2015) have all argued for a re-localisation of income from the rates on the grounds that greater retention would focus local authorities on growth.

1.20 While equalisation would still be necessary, it is argued that greater local retention would foster higher self-sufficiency over time. Other experts take the diametrically opposite view believing that local authorities can have no or little impact on economic growth and that such a reform would simply lead to greater inequality.

1.21 Overall, the evidence suggests that no one tax can display all the ideal properties needed for an effective and efficient system of local taxation. Many local government systems rely on multiple sources. The reliance on a range of taxes with different bases has the potential advantages of improved local stability and buoyancy, and a greater likelihood of the burden falling more fairly.

1.22 If local autonomy means that local government seeks to act differentially between places, or seeks to raise significant additional funds locally to address local challenges or to fund services the evidence shows that effective dialogue with citizens is crucial.

Resource allocation

1.23 In Section 7 the Review examines approaches to resource allocation and distribution. This section considers the traditional approach in Wales and in other parts of the UK and then explores some arguments for and against different directions of possible reform. Specifically the Review looks at approaches, which have sought to incentivise performance through systems of finance and funding.

1.24 The allocation of central grants to local authorities in Wales is based on an approach driven largely by past expenditure balanced by formulae driven “standard spending assessments.” Similar but separate systems operate in England and Scotland.

1.25 The traditional approach has tended to provide predictability and stability. However, it is criticised for inadequately taking into account concepts of ‘need,’ and therefore of being unfair to places with more extreme circumstances such as highly deprived or sparsely populated areas. Others argue that the system is opaque and too complex and that it would be more efficient to aim for a simpler and more transparent system.

1.26 More recently there is a trend towards allocating resources on the basis of outcomes or results or on the basis of participatory and direct community choices. The National Audit Office has warned that payment by results is not applicable in all contexts and cannot be seen as a universal model. Also, effectiveness rests on the ability to set well described results capable of meaningful assessment in terms of outcomes achieved and being able to attribute causality, something that public services often struggle with, particularly when addressing complex challenges they face.

Principles of change

1.27 There is no ideal approach to systems of local finance and funding, rather there is a need for trade-offs between different possibilities. However the available choices need to be guided by a principled theory of change. Section 8 therefore examines what principles might inform those choices in Wales.

1.28 Culture and tradition, political expectations, and approaches to public services are among the factors that influence how far experience is potentially transferable between countries and explains the diversity of international local government finance. For example, some states regard more services as appropriately local and needing local delivery and responsibility, while others see a greater proportion of services as national, and see national consistency and therefore control as a greater priority.

1.29 Effective local government finance reform needs to be approached holistically to reflect and respond to a system characterised by interdependence and pluralism. Reform also needs to be suited to the adjustive capacity in the political and administrative context for which it is designed. This requires clarity of roles, responsibilities and functions for local government. It also requires a view about what level of government should deliver which services. Local finance and funding reform is a means to achieve more effective delivery of public policy and services but cannot be seen in isolation. The benefits will be limited in the absence of clear objectives, effective policy, strong service delivery and robust and regular evaluation.

Conclusions, judgements and dilemmas

1.30 In concluding the Review, section 9 summarises evidence around some of the key issues that relate to the Welsh context as emerge from the report of the Williams Commission:

- Complexity, governance and accountability - Public services in Wales are highly complex and in a small country such as Wales there are legitimate, shared interests in the achievement of outcomes across local and central government. Systems of finance and funding reflect this complexity and effective reform needs to respond to the interdependencies and relationships between form, function and finance, and therefore take a whole system approach. Governance and accountability are therefore best thought of as multidimensional and networked rather than binary and hierarchical. Equally, questions of local taxation cannot be answered in isolation from national taxation, not least because no single tax can embody all ideal properties or objectives. Similarly, approaches to the allocation or distribution of scarce resources depend in part on decisions about the scale of local authorities, the responsibilities they are to hold and the extent and desirability of central controls on local expenditure.
- Scale - The findings of this Review suggest that smaller sized authorities may provide greater local autonomy in the sense of distinctiveness, but may also require larger central intervention to achieve equitable distribution. There is, in other words, a fundamental interrelationship between central and local government. The issue of scale is interrelated to the other themes in this list which are key to a holistic approach to change. Effective reform demands more than redrawing boundaries or restructuring organisations.
- Leadership culture and values - The findings of this Review suggest that Welsh local finance and funding reforms need to support traditions and

approaches (old and new) that strengthen efficient and effective service delivery and development, and challenge those that weaken or obstruct these goals. This will involve asking questions about whether and how far it is necessary to challenge and diverge from the tradition of collaboration and shift towards greater competition choice and/or willingness and ability on the part of citizens and businesses to pay for services.

- Performance - The evidence shows that a shift to achieve a more outcome-focused approach is achievable if, and only if, connected and interrelated policy, service design and delivery, and evaluation processes are also reformed. The Review finds that inputs and outputs are useful as part of a wider reformed system and help accountability and transparency. Finance reform cannot be addressed in isolation from wider clarity about the objectives set for local government. In particular, effective finance reform requires allied and effective performance and improvement frameworks.

1.31 Overall the evidence is complex and offers no single model for local government finance reform, but rather a need to establish acceptable trade-offs and policy choices about the relative weight that should be given to key considerations such as:

- ☐ How to recognise and take account of the vertical and horizontal interdependence of central and local government and other public services in the design and reform of local government, including in changes to finance and funding.
- ☐ The need for equity between places against the desirability of local governments that reflect the needs and wants of their particular places;
- ☐ The desire to incentivise good performance, against the difficulties of penalising poor performance where such penalties may impact on service users;
- ☐ The balance of which services should be paid for by all taxpayers and which by users;
- ☐ The requirement that distributional formulae fully capture need against the desirability of a system that is simple and transparent;
- ☐ The need to gain and sustain popular and political support for finance and funding reform and implementation of a system.

2. Introduction

2.1 This evidence review stems from the Welsh Government reform programme for Local Government in Wales. The programme follows from recommendations made by the Commission on Public Service Governance and Delivery (chaired by Sir Paul Williams: the “Williams Commission”) in January 2014, and subsequent consultation and policy development on reform through a series of Welsh Government White Papers that set out proposals for the reform of Welsh Local Government in relation to culture, leadership, performance and corporate planning as well as the proposed restructuring into fewer, larger councils.

2.2 The White Paper *Reforming Local Government: Power to Local People* (Welsh Government 2015) considers how current funding arrangements for Welsh Local Government need to change to support the reform.

2.3 Specifically, the White Paper identified the need to develop a future finance system that is fit for fewer, larger authorities. It also identifies that the future finance system should support and encourage stronger links between funding and outcomes, innovation, and local collaboration between service providers. It should also facilitate a local government system that has greater freedoms and flexibilities. The system should combine this with improved performance and improvement arrangements, and enable demand management in the expectation of continued resource constraints whatever system is adopted.

2.4 In the context of this ongoing reform programme for Welsh Local Government, this Review examines the existing research and knowledge base to establish how far it might inform potential options for the future funding and finance of Welsh local government and local public services.

2.5 Section 3 sets out the methodological framework within which this Review has been conducted. An important element in the approach was to filter the wide-ranging evidence for relevance and applicability to the Welsh context. Section 4 explores this Welsh context and highlights some of the key factors applied to test the evidence accordingly.

2.6 Section 5 explores the issue of funding balance in local government between funds provided by central government and those raised on a local basis. This is a long-standing issue for local government in Wales, in the rest of the UK and internationally and has a significant accompanying body of research. This section reviews the theoretical and normative perspectives for and against greater autonomy and examines some of the trade-offs implied by the tension between local autonomy and social equity. This section also looks

at how the funding balance works in practice internationally and considers some possible options for change. It also addresses the issues of possible 'hypothecation' of funding from central to local government which is tied to the delivery of specific services or projects, and of the funds which local government does and could raise through local fees and charges.

2.7 Section 6 explores potential options for local taxation reform. It examines the wide variety of practice from international evidence across OED countries and identifies potential principles that might guide change. Specifically the Review considers the case for and against a local income tax and what the implications might be. This section also looks at options for change regarding non-domestic rates or business taxes, reviewing experience and evidence from across the UK. Property taxes are also examined from theoretical and practical perspectives including consideration of international property reform experience.

2.8 In Section 7 the Review examines approaches to resource allocation and distribution as between local authorities. It considers the traditional approach in Wales and in other parts of the UK and then explores some arguments for and against different directions of possible reform. Specifically the section looks at approaches which have sought to incentivise performance through systems of finance and funding.

2.9 There is no ideal approach to systems of local finance and funding, rather there is a need for trade-offs between different possibilities. However the available choices need to be guided by a principled theory of change. Section 8 therefore examines what principles might inform those choices in the Welsh context.

2.10 The conclusions in Section 9 re-examine the preceding evidence through the lens of the key issues that emerge from the report of the Williams Commission.

3. The Brief and Methodology

3.1 In the context of the reform programme for Welsh Local Government, this Review examines the existing research and knowledge base to establish how far it might inform potential options for the future funding of Welsh local government and local public services.

Terms of reference

3.2 The Review was commissioned by the Welsh Government specifically to undertake:

3.3 A review and examination of the existing evidence relating to Local Government finance systems, including:

- On the appropriate balance of funding for Local Government, between that which is provided centrally and that which is raised locally.
- Potential methods through which Local Government could raise a greater proportion of its own revenue and the opportunities and barriers to this.
- On the appropriate balance between hypothecated and non-hypothecated funding to Local Government. The potential effectiveness of options for Welsh local government funding, including the balance between that which is provided centrally and that which is raised locally.

3.4 A review and examination of the range of approaches to local taxation (both domestic and non-domestic) as revenue streams which enable local people and businesses to contribute to the cost of local service delivery, including:

- Approaches to local taxation elsewhere in the UK and further afield (if appropriate).
- The strengths and failings of historic approaches.
- Other approaches in academic theory.
- Evidence on transparency and acceptability to the general public of local taxation systems.

3.5 A review and examination of the range of approaches to allocating resources from central Government to Local Authorities / lower tiers of Government, including:

- Approaches to funding distributions / resource allocation elsewhere in the UK and further afield (if appropriate).
- Alternative approaches to the common ‘needs-based’ approach e.g. macro-economic, ‘bottom-up’ or ‘unit-cost’ approaches.
- The factors that drive the need to spend which should be accounted for in allocating resources across geographic areas.
- Potential methods through which Welsh Local Government might raise a greater proportion of its own revenue and the opportunities, considerations and barriers to this.
- The appropriate balance between hypothecated and non-hypothecated funding to Local Government, and other approaches that incentivise efficiency and good performance.

Our approach

3.6 Our conceptual model for the evidence review was composed of the following elements:

- Criteria for including or excluding material;
- Terms for searching and sorting the relevant literature; and
- The framework for synthesis of relevant evidence.

3.7 The first element was how to filter the wide-ranging evidence for relevance and applicability to the Welsh context. This search process was based on eligibility criteria established and agreed with the Welsh Government before the research began.

3.8 The choice of inclusion and exclusion criteria were developed to follow logically from the Review’s terms of reference. An important design issue we addressed was how broad or narrow the selection process should be. Selection criteria that are too narrow may severely limit the breadth of the evidence reviewed - an over-exclusion threat. On the other hand, selection criteria that are too broad may make the comparison and synthesis of studies difficult if not impossible and may include evidence that is not of sufficient quality - an over-inclusion threat.

3.9 We therefore applied our eligibility criteria with some discretion (drawing on our experience in policy and practice) to ensure that relevant evidence was included and no important evidence was excluded without thorough evaluation. In addition we interviewed a small number of experts to triangulate our choices. We also consulted regularly with Welsh Government officials and

met twice with the Future Finance Panel chaired by the Minister for Public Services.

3.10 In summary our approach:

- Sifted and selected studies that clearly meet one or more key criteria; but
- Created a pool of initially excluded studies where we considered they may merit further examination at a later stage; thus
- Only excluding those sources that clearly did not have direct relevance.

3.11 Our model could be described as having combined traditional and critical evaluation approaches to inclusion and exclusion criteria and applying two key high level questions:

- Is the study relevant to the review's purpose; and
- Is the study acceptable for review?

3.12 The inclusion/exclusion rules we used fell into 4 key categories:

- Subject relevance - Fortunately, because of the clarity of the research brief, the subject relevance criteria followed logically from the terms of reference and were simple to apply.
- Transferability - We judged that evidence could be most transferable if it is based on funding systems within democratic states. However, we also explored literature from developing countries with immature democracies due the incidence of relevant evaluative evidence concerning public service reform.
- Methodological quality - We used a wide range of sources including publications of Welsh, UK and international governments, parliaments and other official sources; academic publications in peer reviewed journals and books; grey literature - i.e. academic publications also on personal websites with collections of papers, evidence provided, presentations; professional and commercial research companies and think tanks; local government bodies and professional associations; newspapers and journals (where this is the primary source for the evidence e.g. reported remarks, an opinion piece or editorial); responses to consultations, either independent or government commissioned. We excluded any evidence which is unreferenced or unattributed and any evidence that is published on blogs and social media or in any other medium other than in the cases explicitly included.
- Time period - We deployed a two pronged approach. For empirical data we focused on the contemporary or most recent evidence. For theoretical evidence we applied no time limit.

Quality control

3.13 In addition to the review of existing sources we also generated some primary data through interviews with a small number of experts. This has provided three principal benefits:

- It enabled us to test our emerging understanding of the evidence with independent experts. This provided valuable external challenge and quality assurance;
- The interviews helped to ensure major sources of relevant evidence were not excluded; and
- The interviews allowed us to generate a high level commentary and summary synthesising existing evidence and expertise.

4. Understanding the Welsh Context

Introduction

4.1 This section examines factors that distinguish Wales and the context for Welsh local government and that are considerations in shaping future local government finance systems. This section highlights key factors and suggests where there are implications for change.

4.2 Current Welsh Local Government comprises 22 unitary authorities with a gross revenue spend of £7.139bn in 2014/15 (£8.003bn including police, fire and national parks) with an average spend per head of population of £2,309 and a range from £1,997 to £2,945 per head. This excludes over £1 billion raised through local fees and charges (Welsh Government 2015b).

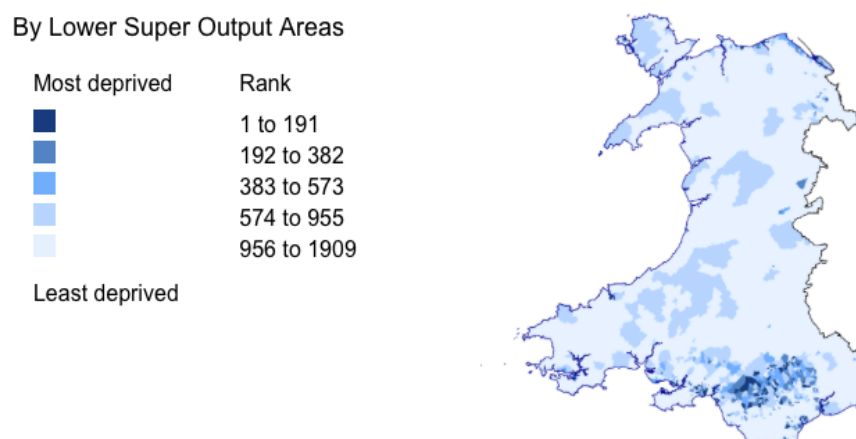
Demography and Social and Economic Conditions

4.3 The diverse geography and distribution of key demographic and social and economic factors have implications for shaping new Welsh Local Government finance arrangements. These include:

- Widely divergent economic activity and wealth with business numbers per current authority ranging from 1290 to 11,500, and per capita Gross Value Added ranging from £13,160 to £22,100 (Data Unit Wales 2016).
- Widely varying population densities with some 14% (430,000) of the population living in a 'sparse' area (Pateman 2011), i.e. an area with a widely distributed population (Bibby & Brindly 2013). In Wales over 30% of people live in a rural area and the smallest percentage of the population living in cities in the UK. Furthermore, the cities of Wales are small in comparison with metropolitan areas in England.

4.4 Figure 1 below illustrates further aspects of this diversity showing the geography of relative deprivation across Wales:

Figure 1: Levels of deprivation across Wales in 2014



Source: Welsh Index of Multiple Deprivation (Welsh Government 2014)

4.5 In addition:

- There are diverging demographic trends such as substantial rises in primary-aged pupils in places such as Cardiff and Swansea (Evandrou et al 2015). The Wales Public Services 2025 project (Jefferies 2015) suggests that the number of primary-aged pupils between 2012 and 2025 will rise by around 46% in Cardiff whilst numbers in some rural areas, or former industrial communities, may remain static or even decrease.
- There is a projected increase in people aged 75 and over of 60+% between 2014 and 2034 (ONS 2015). In Wales, this is projected to rise from approximately 275,000 people in 2014 to 449,000 in 2034. Despite improvements in health and wellbeing, as well as life expectancy, this age group is one that is most likely to need support from public services on a proportional basis (see figure 2 below).
-

Figure 2: Welsh Population Projections 2024 and 2034 expressed as a percentage of the total projected population

Age Band	0-14 %	15-29 %	30-44 %	45-59 %	60-74 %	75+ %	Total Pop. (000s)
2014	16.79	19.34	17.67	20.25	17.01	8.94	3.082
2024	16.79	17.73	17.95	18.20	17.78	11.84	3.187
2034	16.42	17.66	17.35	16.38	18.42	13.77	3.262

Source: Office for National Statistics, October 2015

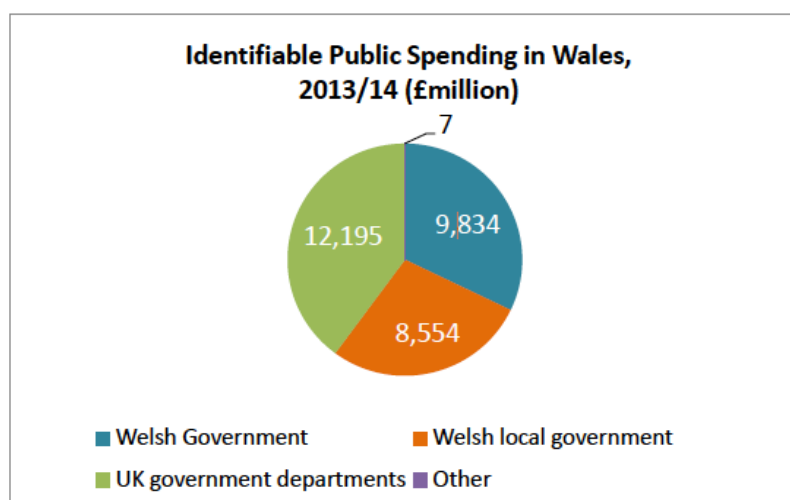
4.6 Local government reform will change the profile of Welsh local authorities. New, larger authorities will span wide variations within their boundaries. However, it is likely that there will be continuing and potentially significant disparities between local authorities even after reform in terms of local economic capacity, service needs, and potential tax and revenue raising capacity: there is unlikely to be homogeneity across reformed Welsh local government structures and boundaries. It is reasonable to expect that this will need further examination to understand the:

- Extent, characteristics and geography of any disparities between new authorities: for example, any widely diverging business distributions and scales between localities may continue to be a constraint on finance solutions that involve property or other taxes on business;
- The impact of projected changes on local authority capacity, such as shifting demography: for example, the expected scale of the increase in people aged 75 or over may offset the positive impact on social care needs resulting from any improvements in health and wellbeing amongst the older population.
- The implications and likelihood of any overall differential tax and revenue raising capacities between new local authorities; and therefore
- The extent to which there might be material equity or equalisation considerations.

The Impact of Future Fiscal and Monetary Policy

4.7 Figure 3 below shows total public expenditure in 2013/14 in Wales to be an estimated £30.59bn, with approximately 28% accounted for through local government (including council tax), 30% through Welsh Government (substantively through the Barnett formula) and 40% through UK government departments (Mansour & Winckler 2015).

Figure 3: Bevan Foundation: Public Spending in Wales October 2015



Source: HM Treasury, UK Public Expenditure Country and Regional Analysis November 2014

4.8 The Bevan Foundation (2015) estimated that in 2013/14, HMRC raised £16.789bn in taxes from the Welsh population. In addition £1.2bn was raised in council tax, £0.96m from Welsh non-domestic rates, and other 'unspecified revenues' from taxes such as Vehicle Excise Duty, bring the total to approximately £19bn. This variance between estimated Welsh tax take and overall expenditure is not specific to Wales: many parts of the UK show a fiscal deficit and only London and South East England in fiscal surplus.

4.9 The Office for Budgetary Responsibility (2015) estimates that changes such as the devolution of an element of income tax together with Stamp Duty Land Tax, Landfill Tax and Aggregates Levy might add a further £2.836bn to direct Welsh Government management by 2019/20. The UK Spending Review and Autumn Statement 2015 announced that the Welsh Government Settlement of £13.86 (£12.9bn revenue) in 2015/16 would be £14.93bn (£13.29bn revenue) in 2019/20: a likely real terms drop of 3.6% (Welsh Government 2015a).

4.10 The Commission on Public Service Governance and Delivery ("the Williams Commission") (2014) reported that projections for the Welsh Government Budget for 2020-21 'were uncertain', but surmised that for every effective pound the Welsh Government has to spend in the current year it might have between 70p and 85p by 2020 in addition to a real terms reduction in budgets of approximately 8% since 2010-11. The Wales Public Services 2025 project (Phillips & Deaner 2013) suggested that the net result of funding pressures and rising demand is that Welsh public services could produce a

revenue funding gap of between £2.6bn and £4.6bn by 2025 (in 2010-11 prices).

4.11 Forward projections for total Welsh public expenditure are subject to uncertainties and long-term factors that place upward pressure on public spending (ibid). These factors also include:

- Continued reliance on UK departmental spending for a significant proportion of spend in Wales and therefore the impact of UK policies to reduce overall public expenditure by departments outside those protected, for example, in relation to welfare reform. Welsh Government figures published in December 2015 (Welsh Government 2015a), suggest reductions in individual departmental expenditure in Wales of between 2.2% and 8.1% in 2016/17, excluding a 2.3% increase in health and social services, but including a reduction of 4.1% for local government with the prospect of further reductions in subsequent years.
- The potential application of the 'no detriment' principle in providing for adjustments to the Welsh block grant if Welsh Government creates new revenue generating capacity, with considerations such as estimating expected yield, forecasted growth rates and potential tax volatility as a result of such changes (The Wales Act 2014).
- The halt in convergence between Wales and England, though for a time limited period until the next Spending Review when the funding floor will be reset. The Independent Commission on Funding & Finance for Wales (Holtham 2009) identified Barnett formula convergence towards England with an estimated need for an allocation of £115 per person for Wales for every £100 per person spent on comparable activities in England. The UK Spending Review and Autumn Statement announced that a £115 to £100 ratio would be sustained (HM Treasury 2015).

4.12 The expectation is of sustained pressures on aggregate Welsh public expenditure and public services, and therefore that local government and local public services will need to find significant cost savings in the coming years. This brings into focus the need for:

- Sustainable and (where possible) future-proofed arrangements for Welsh Local Government finance to sustain essential services whilst reflecting the pressures of austerity;
- Analysis of the nature and distribution of likely funding challenges resulting from resource constraints and expected trends in the demand for public services: this should illuminate the aggregate impact on new local authorities, but also any differentials between them;

- Establishing opportunities for demand management and investment in preventative measures;
- Establishing opportunities for, and the viability of, alternative approaches to raising revenue; and therefore:
- Effective public dialogue to manage future public expectations, but also for transparency and public trust to potentially enable new approaches to work, for example, raising funds through local taxes, charges or other means (Beecham 2006 & Perrson 2012).

Tradition and practice of Welsh public services

4.13 The White Paper 'Reforming Local Government: Power to Local People' (Welsh Government 2015) identified that "at its best, Local Government in Wales has always had an activist nature, engaging co-operatively with local communities to find collective solutions."

4.14 The Williams Commission (2014) concluded that although good practice and exemplars exist, many public services in Wales are 'poor' or 'patchy' with performance comparing poorly with UK and international benchmarks., something echoed by NESTA (Gatehouse & Price 2013) in relation to innovation and knowledge transfer.

4.15 Academic sources (Andrews & Martin 2010) have examined policy divergence since 1999 between different parts of the UK, for example, distinguishing the English thrust towards user choice and competition between public service providers, and Welsh adoption of a 'citizen centred' approach that encourages service provider collaboration rather than competition.

4.16 One rationale cited for this divergence is that population densities across much of Wales are too low for the English approach to work. Analysis (ibid) reflects the conclusions of several public service reviews in Wales (for example Welsh Assembly Government 2004 & 2006) that this approach offers a viable alternative to user choice and competition, but that to be effective, central and local government need to embrace other, wider drivers of improvement of service performance.

4.17 The Beecham Report (2006) outlined what an effective Welsh citizen centred model for public services should mean both for citizens and for public service providers. This included a requirement that "citizens understand how much money flows into their area as a whole, how it is spent, what outcomes are and whether they are receiving value for money". Whilst specific to this model, these principles have consonance with the Adam Smith derived principles for effective taxation explored later.

4.18 In summary, local government finance systems and their design cannot be seen in isolation, and to be effective, require:

- Allied incentives and drivers for performance and improvement: finance reform alone will not guarantee effectiveness or efficiency;
- Effective and objective scrutiny; and
- Well informed local citizens and businesses, and effective dialogue with them about priorities for spending and value for money.

Welsh and UK Interaction

4.19 The boundary between Wales and England is porous with a complex picture of interaction in economic, social, and infrastructure terms. This is a consideration for local government finance arrangements because an estimated 48% of the population of Wales lives within 25 miles of the English border and 16m people in Wales and England live within 50 miles of the border between the two, compared with 3m living within 50 miles of the England Scotland border.

4.20 Whilst this relationship should not be over simplified or the implications overplayed, Holtham (2010) and more recently, the Bevan Foundation (Mansour & Winckler 2015), recognise the possibility for ‘tax tourism’ if policies for localising tax or revenue raising regimes – or for creating local incentives to citizens or businesses - lead to significant differentials between localities in relative proximity. This is relevant to reform within Wales, but a consideration if English and Welsh approaches diverge.

4.21 For example, the Bevan Foundation (ibid) cites proposals for Landfill Disposals Tax where avoiding ‘waste tourism’ is a consideration, and the proximity of Bristol Airport (and to a lesser extent Liverpool) if Air Passenger Duty is devolved.

4.22 Also, there is a wider economic debate around the extent to which, or when, it is desirable to foster localised competition for economic development. Examples include where encouraging clustering is desirable (Porter 2000), or the role and benefits of focusing on growing locally derived capital and assets rather than attracting mobile capital influenced by potentially shorter-term incentives in relation to location.

4.23 International research (Hendrick, Wu & Jacob 2007; Vermeir & Heyndels 2006; Maarten, Allers, Elhorst 2005) suggests that where differential local taxes are levied on citizens, the most likely route for any objection to higher taxes in a specific locality is through the ballot box and democratic process. They suggest that citizens are less likely to relocate to areas with lower taxes,

although this implies transparency, free information flows, and responsive democracy.

5. Balance of funding

Introduction

5.1 The Welsh Government seeks a more effective and more accountable local government and is exploring whether the current system optimises the balance of funding between that which is raised locally against that which is provided by central government. This is a long-standing issue for both UK local government and internationally, with a significant accompanying body of research. This section explores the issue of funding balance in local government between funds provided by central government and those raised on a local basis. It also reviews the theoretical and normative perspectives for and against greater autonomy and examines some of the trade-offs implied by the tension between local autonomy and social equity. The section then looks at how the funding balance works in practice internationally and considers some possible options for change. It also addresses the issues of possible 'hypothecation' of funding from central to local government which is tied to the delivery of specific services or projects, and of the funds which local government does and could raise through local fees and charges.

The balance of funding: theoretical perspectives

5.2 The Layfield and Widdecombe reviews in the late 1970s examined the balance of funding. In particular, Widdecombe argued that the value of local government stemmed from three attributes:

- Pluralism: power should not be concentrated in one organ of state but dispersed, thereby providing political checks and balances.
- Participation: local democracy offers two kinds of participation: participation in the expression of community views and participation in the delivery of services.
- Responsiveness to local needs: the elective nature of local authorities.

5.3 In research for the Lyons Inquiry, Martin (2005) examined the case for strong local control over local services suggesting that:

- Councils are close to citizens and service users and are therefore best placed to tailor services to local needs and preferences;
- Local discretion facilitates engagement by local stakeholders in the design, delivery and monitoring of services, increasing the chances of these services being responsive to the needs and priorities of local service users and taxpayers;

- Local control potentially enhances local democracy, by making local government more directly and accountable to their electorate;
- Councils can work more effectively with other local agencies to better integrate and co-ordinate services to meet local needs if freed from centrally designed regulations, targets and funding streams.

5.4 The standard economic account of “normative tax / grant theory” (Charbit 2010 and see Annex 1 for a fuller account) promoted by international bodies including the OECD and the IMF, holds that local taxes should be the primary revenue source for sub-national governmental bodies, while “transfers” (i.e. grants) should only be used as a supplementary revenue source to correct for externalities, or redistribute resources between areas. The argument also suggests that decentralisation of taxation is cost-efficient.

5.5 World-leading authorities such as Bahl and Bird (2008), state the argument in terms of a basic assumption that people's preferences for government services vary for a complex mix of reasons. For subnational governments to respond to these preferences or needs, they need to structure budgets to tailor the package of services to be delivered to the needs of the locality. They couch the benefits in terms of “downward accountability” as local voters will ensure that needs are met.

5.6 They contrast this with a more centralised system in which accountability is upward and service provision more uniform and less flexible or responsive: “The more heterogeneous the country, the greater the welfare costs of uniformity” (Bahl and Bird 2008): i.e., the greater the complexity of a given society, the greater the need for local government to have sufficient fiscal capacity to flex to meet local needs (Kovacs 2009; Faguet 2004; Agegnehu 1998).

5.7 These conclusions are echoed in international evidence on “fiscal federalism” (Oates 1972 & 1999; Bird 2002; Bird et al 2003) drawn particularly from research in the US and Canada, but also wider experience across federally structured states: effective fiscal federalism is grounded in trying to align responsibilities and fiscal instruments with the proper levels of government.

<p>Alexis de Tocqueville from more than a century ago: “The federal system was created with the intention of combining the different advantages which result from the magnitude and the littleness of nations.”</p>

5.8 Based on wide evidence gathering, Oates suggests a set of principles for assigning functions and responsibilities in multilevel government. Whilst offering guidelines rather than “a rigid blueprint”, these revolve around:

- Central government taking primary responsibility for macroeconomic stabilisation policies because it controls the monetary system, and regulates the supply of money and credit, and through this, influences aggregate economic activity;
- A case for decentralised finance to provide local public goods and services whose consumption is limited to specific jurisdictions or needs, as this allows each jurisdiction to provide a suitable level and range of public services in response to the demands of local citizens;
- Decentralisation being appropriate where differentiated public outputs between localities is desirable rather than national equality of treatment between areas (even if the latter might be economically more efficient). The value of local information and knowledge plays into this case;
- A retained role for central government to provide assistance to low-income households (i.e. equalisation and redistribution);
- A recognition that public opinion, culture or orthodoxy may mean that what is deemed to be “local” in some countries may be regarded as a provincial or national in other settings;
- An economic case for the provision of public services at the lowest level of government that optimises the spatial benefits and the cost of outputs (Oates 1999).

5.9 International public finance theory suggests that an essential ingredient in creating good local public services is a responsive and responsible local government (see also Kitchen 2003). A necessary condition for this is that local government possesses the fiscal capacity to provide required and desired levels of public infrastructure and services, i.e. local governments with the power to raise revenue to respond to and take account of local needs and desires are local governments that are more likely to be able to take account of local needs and desires.

5.10 Balancing arguments for strong local control to the Lyons Inquiry, Martin (2005) also set out a number of arguments for strong central control:

- Central government is best placed to ensure equity between local areas by checking that all councils achieve certain minimum standards in terms of quality and quantity of service;
- Some services can be delivered more effectively and efficiently at regional or national level;
- There is a need for regulation by central government to safeguard the “common good”; and

- Decisions and action by local government might impact on the ability of central government to achieve broader economic, social or environmental objectives.

5.11 There is also the argument that sub-national governments are prone to capture by elites or interest groups who govern through the filter of their interests not the community's. The extent to which this exists or is a risk, may condition a need for strong external challenge and regulation, and for effective and locally accountable democracy (Dunleavy 1980; Crook & Sverrisson 2001; Bardan & Mookherjee 2000).

5.12 A more radical critique suggests that local autonomy and equity are fundamentally opposed (Walker 2002). The argument is that autonomy and the localisation of tax revenues would amplify inequalities on the basis that in most countries (including Wales), wealth, income and welfare are unevenly distributed so that taxable resources are likewise concentrated in certain places. Section 4 above suggested that this may be a consideration for finance reform in Wales: even with a smaller number of larger authorities, there will be widely varying social and economic conditions between places.

5.13 In essence, to empower local government through decentralisation would require significant redistribution to support areas with a structurally weaker economic base. Most of the evidence finds that equalisation is fundamental to fairness. However, there is a notable critique of equalisation suggesting that it leads to dependency rather than self-sufficiency (Shah 2007, ICLGF 2015).

5.14 Despite differing arguments and interpretations of the evidence, there are two broad questions that emerge around the extent to which:

- Decentralisation is a necessary or sufficient condition for good local governance
- Local autonomy might lead to greater inequality and how this might be addressed.

Balance of funding in practice

5.15 In practice, (in Wales and internationally), transfers or grants often represent a large proportion of sub-national governments' revenues. International comparisons also show that UK and Welsh local government raises a relatively low proportion of revenue directly (28% in 2013/14: Mansour & Winckler 2015), and that there is little local discretion over the tax base. The OECD characterise the UK local government finance system (including Wales) as having "low autonomous taxes, low or no tax sharing, and a high level of transfers," (Blöchliger & Petzold 2009) meaning relatively high comparative dependency on government grants.

5.16 International standards for evaluating local autonomy do not simply look at the balance of funding. They also assess the level of discretion that local government has over its tax base. The key question in tax assignment in a multilevel government is: “Who should tax, where, and what” (Musgrave 1983, p12)”.

5.17 OECD has a “taxonomy of local tax autonomy” to describe the level of local or sub-national fiscal autonomy based on the degree of discretion or control available to state and local governments. This measures fiscal discretion as:

- Greatest if sub-central governments are free to determine both the taxable base and the rates of a particular tax, without any aggregate limits on revenues, base or rate enforced by the central government; and
- Modest where central government decides both the tax base and the rates of taxes collected by sub-central governments and where the sub-central level has administrative discretion on collection procedures for the tax concerned (OECD 2013).

5.18 While the OECD treats the UK as a unitary state, it is possible to apply their conceptual framework separately to England, Scotland and Wales. In our view, doing so suggests that local government in all parts of the UK have low tax autonomy because they have no real influence over their tax base. However, Scotland and England would have particularly low tax autonomy because the capping regime effectively removes the freedom to set the council tax rate, a freedom which is still available to Welsh local government. In contrast, in countries with high levels of local tax autonomy (e.g. Finland), local authorities can set both the tax base - i.e. the subjects of tax - as well as the tax rates.

5.19 Whilst tax theory identifies effective models, international comparisons show that many systems of tax assignment diverge from these models. This divergence reflects the impact of political and cultural considerations, and the influence of history rather than the consistent application of any normative principles (Bird 1999; Kovacs 2003).

5.20 The English Balance of Funding Review (ODPM 2004) examined these questions. The Review’s public consultation suggested public indifference and a lack of understanding. For example, when asked, people assumed that councils raised 70-80% of funding locally through council tax and were surprised to learn the true position. Public concern was more focused on effective checks and balances in how money was spent. Despite this, the Review was particularly concerned with ‘gearing’ i.e., that a small percentage increase in local authority spending budgets requires a larger percentage increase in council tax and by implication assuming constraints on central government funding:

- Local authority dependence on Government grant so for every 1% increase in spending, they need to increase council tax by 4%; with
- Wide variation across authorities with a ratio of 2:1 in authorities with the largest council tax bases to 9:1 or more in authorities with the smallest tax bases (many of which are those with the highest needs).

5.21 The conclusion was that:

- Shifting the balance of funding in favour of more locally raised revenues would reduce gearing and improve funding flexibility, allowing local authorities to vary spending levels and fund additional pressures with smaller percentage increases in council tax; but that
- This was a partial solution that would ease but not solve the problem; and that
- Whilst favouring greater local revenue raising, that there is a likely trade-off between raising that greater proportion of revenue locally and the potential levels of equalisation needed between different council areas; and also
- A trade-off between the simplicity of the measure and equity.

5.22 In looking at Scottish local government finance, the Burt Review (2006) challenged those who saw a shift in the balance of funding in favour of local government as a 'solution', concluding that, "the importance of the balance of funding is that in itself it is tangential to the main problem. The right level of funding, the relationship between central and local government and the extent of discretion for local government are the crux of the problem." (Burt 2006 pp26-27).

How could the balance of funding be changed?

5.23 The Burt Review showed that most countries use multiple local taxes (23 out of 28 in their study; see also Charbit 2010, Kovacs 2009, Kitchen 2003, OECD 2013). Potential methods for councils to raise a greater proportion have been considered by a number of reviews. Most such reviews have argued for expansion and diversification of local revenue sources including a local income tax, the localisation of business rates or the wider diversification of the tax base. The evidence suggests three main means by which reforming the balance of funding can provide greater local fiscal autonomy:

- Removing local government funding responsibility from services for which central government has lead policy responsibility: these would be paid for directly by the central government.
- Allowing local authorities to retain or set non-domestic rates.

- Increasing the share of local government income that is funded directly by local residents and other consumers.

Hypothecation and specific grants

5.24 In this context, our Review considers:

- Hypothecation as used by central government to provide and / or constrain elements of local spending on specific areas or objectives; and
- Specific grants in local government, again where funding is anchored to specific objectives or outcomes. These grants grew significantly from 1997, both in absolute terms and as a proportion of total block grant finance to local government.

5.25 A House of Commons Library research paper traces recent interest in hypothecation to a Demos pamphlet that suggested that hypothecation was one way to increase people's willingness to pay tax, to "reconnect taxes and services" and "to share sovereignty between elected representatives and citizens" (House of Commons 2011).

5.26 In Scotland, the Burt Review (2006) was unable to assess how much discretion local authorities had over how they spend the income they receive. However, the Convention of Scottish Local Authorities suggested to Burt that almost 80% of local authority budgets are defined by legislation and by the then Scottish Executive, with 10% or less of total local government revenue budget having substantive autonomy. If accurate, these proportions are unusually high. The Burt Review concluded that this level of central control raised questions over how much discretion local authorities had to use the funds they receive to tailor and deliver services in accordance with local priorities.

5.27 Institute for Fiscal Studies (2007) also argue, that even with binding specific grants, local authorities may have some discretion over how the money is allocated within the broad policy area concerned, meaning greater local discretion than if the projects were run directly from Whitehall. On balance, more recent evidence and reviews have tended to:

- Argue for moderating levels of hypothecation and specific grants (and public finance constraints have reduced such funding anyway); whilst
- Recognising that in principle hypothecation can be an expression of the democratic will of a national government.

5.28 For example, the Scottish Government has a general statement of policy with a general presumption against additional hypothecated allocations within

the local government settlement (Scottish Government: <http://www.gov.scot/Topics/Government/Finance/spfm/locgovfin>).

5.29 Previously the Welsh government had a protocol with the Welsh Local Government Association that set out criteria to be met before further hypothecated grants are created, with a key test to demonstrate a coherent rationale for the grant within the framework of Welsh Government policies.

5.30 Lyons (2007) argued for a reduction in conditional, ring fenced and specific grants on the basis that undue hypothecation and specific grants can override legitimate local choices and priorities, and therefore impact on citizen satisfaction and the ability of authorities to manage pressures effectively. Local flexibility was identified as key to help local partners to work more effectively together on crucial issues.

5.31 Lyons also suggested the need for financial stability over time and for pooled budgets with a focus on outcomes for the effective delivery of complex service objectives such as “preventative work”, rather than budgetary “short termism” (with an implication that specific grants and hypothecation lead to the latter).

5.32 However, Midwinter (2001b) identified that:

- A block grant model can deliver national priorities with local variations and is appropriate and efficient where central government does not want to impose specific policy preferences; but that
- If government wants to ensure that priorities are delivered in all authorities, then the specific grant model may have some advantages.

Charging

5.33 The use of charging and concessions is another option for raising revenue to sustain services in the face of public expenditure constraints, to recover costs and to support certain groups through discretionary concessions.

5.34 Some economic theory (e.g. Bird & Tsiopoulos 1997) supports the principle of charging for services on the basis that it:

- Improves efficiency with which governments make use of resources.
- Presses public service providers to consider what the public is willing to pay, and that the public sector supplies or procures at reasonable cost.
- Conditions responsible public consumption of services or discourages use of services.

- Can encourage behaviour change (for example, road traffic congestion charges).

5.35 However, theory recognises circumstances where charges are less appropriate and so may be limited or services provided through general taxation, for example where:

- Public goods are involved and it is undesirable or impractical to charge.
- Establishing efficient short term pricing is challenging. For example, infrastructure investment may be desirable, but initial costs are high and the returns long term. Charges may still be levied but unfeasible at a level that will rapidly cover the initial costs of public investment.
- There are desirable benefits (externalities) that cannot be factored into prices. Aspects of education provision can be seen as an example of this given the long-term benefit to all from a well-educated population.
- Social and political objectives prevail: later sections of this Review examine the role of political considerations and judgement, but charging is one area where, for example past history and current citizen expectations may make the shift to charging challenging. Further, where policies and services are aimed at re-distribution or inclusion, charging may be impractical or inappropriate.

5.36 In practice (although there is some blurring of divisions in practice), there are three strata of local government service relevant to assessing the extent to which charging is an option without statutory change (Audit Scotland 2013):

- Statutory services that generally require service provision without direct charge (for example, most collection and disposal of waste, and some social care services).
- Services that are subject to statutory guidelines (for example, planning and building control and non-residential care or commercial waste). Here some level of charging is sanctioned.
- Services that are provided at local discretion where charging, levels of charge and concessions are generally also discretionary (for example, sports and leisure and car parking).

5.37 Audit Scotland (2013a) guidelines for local authorities suggest the following considerations in making choices about charging:

- Councils should have clear policies for charges and concessions and regularly review these;

- Councillors should take a lead role in determining and designing charges and concessions;
- They should not solely be a means to generate income;
- Effective charging requires good quality cost information including unit costs to inform effective design and estimates of cost recovery;
- Charges will vary from council to council reflecting local circumstances, and require transparency and explanation to the public;
- Charging should be a component of overall council financial management to understand the role and contribution of charges, and extent to which individual services are subsidised.

5.38 Charging for services can be effective and acceptable to citizens, however it can be contentious and resisted by citizens (Audit Commission 2008). It is a political judgement as to how Welsh communities and businesses will accept new or higher charges, the extent to which there is a trade-off between charging and other taxation, and what constitutes the right balance between taxpayer funding and user-charge.

5.39 Looked at another way, Beecham (2006) suggests the need for effective dialogue with citizens if local autonomy means that local government seeks to act differentially between places, or seeks to raise additional funds locally to address local challenges or to fund services. Also, in recent years, local government:

- Has introduced or extended charging for many aspects of services; however
- For major shifts such as many care services for the elderly, there is a tendency to outsource or ration service through eligibility criteria to reduce public sector support, rather than levying substantial additional charges for support to be provided directly by the public sector.

6. Local taxation and revenue raising

Introduction

6.1 This section explores potential options and sources for local taxation and the considerations potentially relevant to future Welsh Local Government finance reform. It examines the wide variety of practice from international evidence across OECD countries and identifies potential principles that might guide change. Specifically this section considers the case for and against a local income tax and what the implications might be of pursuing such a change. This section also looks at options for change regarding non-domestic rates, or business taxes, reviewing experience and evidence from across the UK. Property taxes are also examined from theoretical and practical perspectives including consideration of international property reform experience.

Context

6.2 Over the past 20 years, local governments in many OECD countries have faced declining grants from central government, devolution of additional funding responsibilities, and a limited tax base that may be insufficient to meet future fiscal challenges and objectives (Kitchen 2003).

6.3 However, evidence suggests that local revenue systems that include a mix of taxes and other sources perform better. For example, this makes it easier for local governments to balance potentially competing policy objectives, contribute to equity by drawing from a wider revenue base, weather economic difficulties, and compete better in the global economy.

6.4 Comparative evidence on local taxation in OECD countries shows a very diverse picture with no consistent approach to local government taxation. Some countries have only one tax at the local level while others have two or three. This diversity is illustrated by the fact that:

- Income taxation (corporate and personal) is the most important source of local tax revenues in fourteen countries: including Denmark, Finland, Norway, Sweden, Luxembourg, and the Czech Republic;
- In Australia, Canada, Mexico, France, Greece, Hungary, Ireland, Netherlands, New Zealand and the United Kingdom, by comparison, local governments have not had direct access to income tax revenue;
- Local sales taxes (generally taxes on goods and services) generate between 20% and 76% of total local tax revenue in ten countries;

- At the other extreme, local sales taxes are nonexistent in five countries and produce less than 10% of local revenue in twelve countries;
- Property taxes account for over 90% of local tax revenue in 5 countries (Australia, Canada, Ireland, New Zealand, and the UK) yet local governments in ten countries get less than 10% of tax revenue from this source;
- Local governments in France, Italy, Greece, and Turkey rely relatively heavily on other local taxes, mainly on businesses.

6.5 Swianiewitz (2003) proposes some basic principles of local taxation:

- The allocation of tax yields is proportional to the allocation of functions.
- The tax base has to be distributed uniformly.
- The tax is to be well defined in geographical space.
- Visibility of the tax is essential.
- Tax yields should have elasticity against inflation.
- The tax base should be relatively immobile.
- The system should not be too fragmented or too complicated.

6.6 In addition, Bird (1999) suggests that property taxes, excise taxes, personal income taxes, sales taxes and taxes on business are the sole economically acceptable categories of taxes levied at local level of government. McLure (1993) suggests the potential for excise taxes as a source of regional revenue, largely on administrative and efficiency grounds, whilst taxes on business are weak on efficiency grounds and may distort location decisions.

6.7 Finally, in evidence to this Review, Professor David Heald of Glasgow University suggested that complex systems of finance and funding will be a compromise between principles and objectives and that it is unlikely that all components of the system will be in balance. Analysis should therefore look at the overall shape and composition of the system rather than disproportionately focus on any single component.

A local income tax

6.8 A local income tax ("LIT") has been considered by UK reviews and commissions dating back to the beginning of the 20th century and include:

- Rejections of the notion by the Royal Commission on Local Taxation of 1901 and the Kempe Committee of 1914;

- Support from the Layfield Committee (1976) that concluded that it was “the only feasible major new source of income” for local authorities;
- The English Balance of Funding Review (2004) suggested local income tax as the principal option to shift the balance of funding towards local revenues (it also advocated the re-localisation of business rates);
- Lyons (2007) supported the concept and modelled two options; and
- The Scottish Burt Review (2006) rejected the idea of a local income tax with concerns that included the impact on incentives to work, and because income taxes were already a relatively large share of total UK tax revenues.

6.9 Advocates of local income taxes highlight benefits to the local government finance system that revolve around:

- Income taxes being ‘fairer’ than property taxes in that liability would more closely reflect ability to pay. Lyons caveated this by pointing out that an income tax would impact more on those of working age than those who had accumulated wealth in assets such as property (see the text box below);
- Promoting better local accountability and responsiveness by making local authorities less dependent on central grant;
- A naturally buoyant local tax would help make local government finance more sustainable in the long term.

6.10 A number of considerations emerge from the evidence. Despite Lyons favouring the introduction of a local income tax, his inquiry suggested that moving to an income tax could result in a shift in the tax burden away from retired households and onto the working-age population. Council tax liability is spread throughout adult life, while an individual’s income tax and VAT liability is typically concentrated during their working life. By implication, this analysis supports the contention that effective local finance systems generally use multiple sources and that this tends to be more equitable to citizens.

Lyons - Modelling a local income tax based on the 2007 tax system and rates as an addition to the then 22p basic rate. Two scenarios were modelled:

- Full replacement local income tax to replace council tax, raising the £22 billion raised in council tax (gross of council tax benefit) in 2006-07. An average local rate of 7.7p on the basic rate of income tax would have raised the amount needed to replace council tax; and
- Partial replacement local income tax, which would replace approximately 50% of council tax and raise approximately £11 billion (gross of council tax benefit) in 2006-07. An average local rate of 3.9p on the basic rate of income tax would replace half the current yield from council tax, and allow band D council tax to be reduced to an average of £629.

6.11 Secondly, an income-based tax could introduce natural buoyancy into the system, potentially removing the need for rate increases each year: in theory yield would grow as people earned more, or if more people moved into work. However tax yields fluctuate: evidence to the Smith Commission (Heald 2014) suggests that any fiscal devolution requires borrowing powers to manage year-on-year fluctuations in revenues. Research in support of Lyons also indicated that while the natural buoyancy of an income-based tax would be an advantage, revenues from basic rate income tax may grow more slowly than council tax (Lyons 2007, p264).

6.12 Other countries manage this risk successfully. For example, in Denmark the annual negotiations around grants from central government take into account the expected growth in local revenues, with an expectation that the government may provide 'top up' resources during downturns.

6.13 Thirdly, there are design questions that, for example, suggest local authorities might need powers to vary either side of a standard local rate, or have a limited menu of local rates to choose from (e.g. Silk Commission 2014). However, central government would be likely to retain powers to set variables and parameters nationally, such as thresholds and allowances, which could affect the actual revenues raised in any local place. Also, Holtham (2014) posits standardising collection to reduce costs of collection with a minimum of bodies involved, and even an incentivised HMRC to collect Welsh income tax if devolved.

6.14 Fourthly, moving from council tax to income taxes, or combining the two potentially creates (or sustains) disparities in tax take between authorities given differing social and economic circumstances with accompanying considerations about the need for equalisation. For this reason, amongst others, Holtham (2014) advocates taxing wealth through property rather than income.

6.15 In conclusion, local income tax is a potential means to diversify the local tax base and increase buoyancy, but it is unrealistic to expect a local income tax to support significant overall spending growth, and upward pressure on local income tax rates could be as controversial as increases in council tax bills.

Non-domestic rates

6.16 Non-domestic rates, often known as business rates, are a significant source of taxation bringing in almost £1 billion to fund local services in Wales.

6.17 Although the market rental value basis system for calculating rates is the same throughout the UK, rates in Scotland and Wales are financially devolved

from UK Government. Financial devolution in Wales followed a report of the Commission on Devolution in Wales in 2012 (the Silk Commission: Part 1).

6.18 The Morgan Review of Business Rates in Wales (2012) argued for greater local retention of rates by Local Authorities and concluded that there was merit in local authorities being responsible and accountable for raising more of the money they spend on the basis that:

- Transparency in the linkage of local taxation, local expenditure and delivery of services is important so that rate payers can see what value they get from paying rates; and that
- Pooling arrangements offer little incentive for councils to focus on increasing the revenue from rates through the creation of a stronger local economy, i.e. retention would link economic growth and the revenue received, and incentivise local government to foster growth; but
- The Review concluded against empowering individual local authorities to vary the Universal Business Rate (UBR) for their area.

6.19 Morgan also examined how local retention might work given the diversity of economic conditions and capacity across Wales, and that some local authorities will be more able to generate revenue to foster economic growth than others, i.e., whether a simple system based solely on revenue would produce “winners and losers”. Morgan proposed that councils retain their full rate revenue and that Welsh Government adjust the Revenue Support Grant distribution to maintain the current total revenue across all councils to ensure that no council is initially worse off.

6.20 This proposal also suggested an individual local authority retention of 50% of any future increase in rates revenue with the other 50% reallocated to those authorities that have been less successful in generating economic growth for 5 years. Regular property revaluation would trigger re-assessment to ensure a fair allocation of total funds to each authority. The argument for this was to incentivise local authorities to introduce innovative local economic development strategies that encourage local businesses to invest and promote new business start-ups. Holtham (2010) was similarly in favour of councils retaining a proportion of rates from new developments, perhaps for a fixed period of time.

6.21 This proposal has been operating in England since April 2013 under the Local Government Finance Act 2012 whereby English local authorities retain half of business rate income. This aimed to secure local authority allocations in the first year (2013/14) similar to those likely under the former system by using the baseline of the previous formula grant system, and a business rates baseline averaging the two most recent years.

6.22 Where the business rate take in any one authority exceeds this actual baseline, the difference is paid to central government and redistributed to top-up authorities with a baseline lower than their previous baseline. Tariffs and top-ups are uprated each year until a reset in 2020. The system would allow councils to retain 50% of growth in their rate receipts arising from new or expanding businesses. The balance would be levied and used to fund a safety net to protect councils from year-on-year business rate income fall by more than 7.5%.

6.23 The English Local Government Association has suggested that the change has resulted in more risk and uncertainty (LGA 2015). Their research suggests:

- A first year deficit of £27 million, with some 46% of authorities experiencing some loss. However, this research also projected significant revenue growth over the next two years;
- A majority of councils were supportive of the new system with 58% acknowledging that this was the single best outcome of the reform for local government;
- That 66% of councils said they were dependent upon a small number of large businesses for their business rate income, and 21% of councils identified some risk to income due to potential closures or appeals.

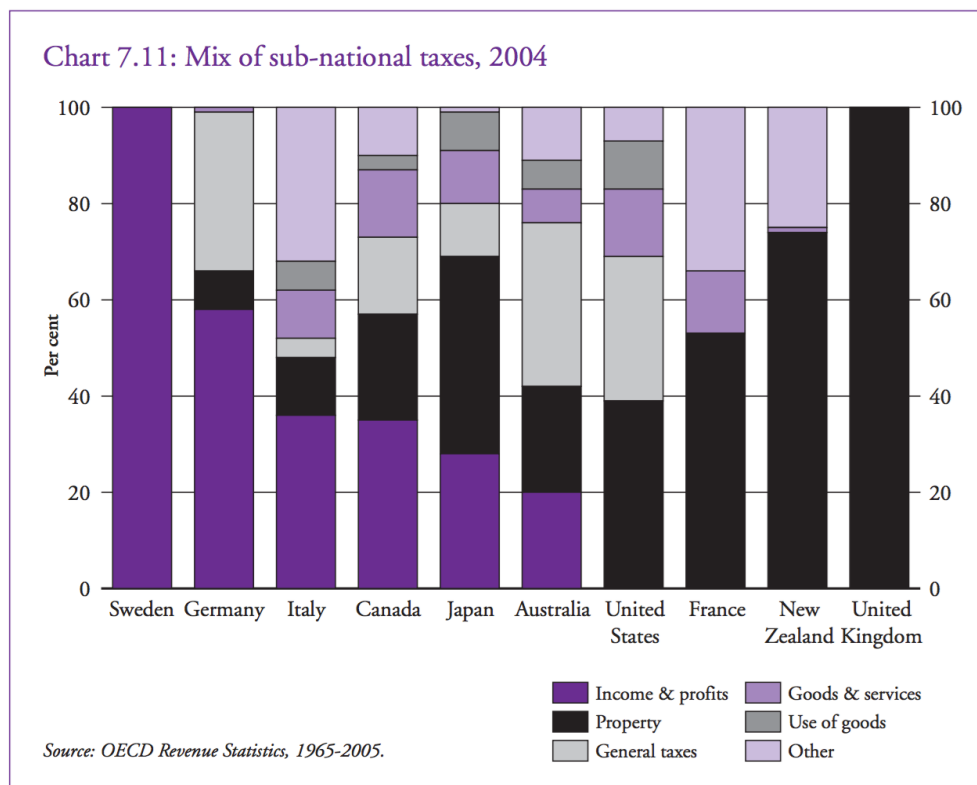
6.24 By contrast the Business Rates Panel (2015) argued that local retention risked significantly altering the pattern of resource allocation in Wales and could confer significant risks on smaller authorities with less capability to attract new business and grow tax bases. The Panel favoured reviewing the effectiveness of the systems in England and Scotland before modelling a local retention scheme to suit requirements in Wales.

Property Tax: Context

6.25 There is nothing new about property taxation, or about the debates and discontent that they can engender (Bird & Slack 2002; Bahl 2009). Many countries have a property tax, but few of their citizens like the tax.

6.26 Councils in Wales (and the UK) have a high reliance on property tax relative to other countries (see figure 4 below and see Annex 2 for a wider survey).

Figure 4: The Mix of Sub National Taxes: Source OECD Revenue Statistics 1965 – 2005



Source: Lyons 2007

6.27 Organised approaches to property taxation date back to ancient Greece and Rome. Modern European property tax systems have roots in the Middle Ages (UN 2013). The survey of England ordered by William the Conqueror in 1085, reported in the 1086 Domesday Book is Britain's oldest public record containing data on land, occupants, values, incomes, and taxes paid.

6.28 Adam Smith's 1776 treatise, *Wealth of Nations*, remains a foundation of modern economics and valuation science. It was prompted by the role of wealth (property) in a nation's economy and the unpopularity of taxes. In response, Smith propounded four canons of taxation dealing with equality, certainty, convenience of payment, and economy in collection.

6.29 Public finance economists generally regard taxes on immovable property as a suitable source of revenue for local governments and a contribution to a well-balanced revenue system (Rosengard 1998; Bahl & Martinez-Vazquez 2007; Fisher 2009). A report for the UN Habitat (UN 2013) sets out the arguments in support of a good property tax which revolve around immoveable property taxes:

- Providing clear eligibility: it is obvious what is to be taxed, and is difficult to avoid as property cannot “flee” the tax collector.
- Reflecting that local government services are often provided to properties or their owners and occupants.
- May capture some increases in the value of land that are partially created by public expenditures.
- Provide a dedicated source of revenue which promotes local autonomy and are visible so focus attention on the quality of local governance and promote accountability.

6.30 Arguments against property taxes (for example, Rosengard 2012) revolve around:

- Ubiquity, yet they are widely disliked: visibility is good for transparency and accountability, but heightened taxpayer awareness can intensify taxpayer resistance.
- A potentially wide tax base is good in theory, but can be politically and administratively challenging in practice.
- While technology can increase administrative efficiency and effectiveness, property valuation is challenging.
- Experts generally see property tax as fair, but with no direct relationship between liability and ability to pay, leaving some taxpayers “asset rich but cash poor”. Property tax does not reflect a real cash flow but an implied one that may not necessarily reflect the owner’s current situation (Johannesson-Linden & Gayer 2012). This imperfect association between incomes and property tax liabilities may create problems for some taxpayers such as older people with little income.
- Property tax supports local government autonomy, but can exacerbate regional disparities in wealth.

Property Tax Reform

6.31 Analysis and evidence point in different directions as to whether property tax is regressive. For example:

- Taxes on housing services are considered to be inherently regressive, because housing constitutes a relatively larger share of consumption for poorer people.
- Taxes on property ‘capital’ are progressive, since income from capital constitutes a relatively higher share of income for richer people.

6.32 Holtham (2014) suggests that Welsh council tax is regressive:

- In 2013 the average council tax on the lowest band, where properties are worth up to £44,000, amounts to nearly 1.9% of the value of the property;
- This falls to nearly 1.5% in the range £44,000-£65,000; and
- Falls further for more expensive properties; those worth over £424,000 attracting tax of approximately 0.5% of capital value. However, it should be noted that council tax support schemes go some way in addressing the regressive aspect of the system for low income households.

6.33 There is general consensus that an essential component of an effective property tax is regular updating of values. UN Habitat (UN 2013) suggests that there are no technical or administrative justifications for failing to revalue properties annually because this requires continuous market monitoring, studies of valuation report accuracy (ratio studies) and price trends, and continuous maintenance of a land and building attribute database: UN Habitat cite Danish and Swedish experience in “enlisting taxpayers” and using aerial photography to sustain modest costs on this basis (UN 2013, pp62-3).

6.34 However, UN Habitat do not advocate that all values should be changed every year, but rather that values should be changed where market evidence indicates that existing valuations no longer meet standards. This work also suggests that intervals greater than six years are “too great”.

6.35 In the UK, the Layfield Committee report in 1976 spoke of the lack of buoyancy in local property taxes and the need for regular revaluations to be undertaken. Yet there has been no revaluation of property values on which Council Tax is based in Scotland or England. In Wales a revaluation was carried out in 2005 and Northern Ireland carried out a revaluation in 2007. The revaluation exercise in Wales resulted in the addition of an extra band at the top end of property values.

6.36 The Convention of Scottish Local Authorities (COSLA 2013) has called for “a wholesale revaluation” in Scotland and regular revaluations, arguing that it is difficult for taxpayers to see how their council tax liability relates to the current value of a property. This critique also finds:

- That the structure of 8 bands is based on the value of a property as it would have been in 1991 and a lack of clear methodology to link the value of a property today with its value in 1991
- Complexities in valuation given subsequent regeneration, or where new housing estates have been developed since 1991.
- Revaluation following improvement (e.g. extension) is not triggered until the sale of a property so two very different properties in terms of value can attract the same council tax before any sale.

6.37 The analysis also highlights that there is no requirement under council tax regulations for a regular revaluation, whereas non-domestic rates have a

five year revaluation cycle. Lyons (2007) argued that revaluation would have two significant benefits by:

- Underpinning the credibility of a property tax by maintaining a meaningful relationship between relative property values and bills; and
- Creating an opportunity to make structural changes to council tax. The Review also supported the notion that technologies exist to revalue relatively cost effectively so there was no reason the government should not choose to do so (see also UN 2013).

6.38 Lyons also suggested that revaluation of properties would be challenging given the long period of time since the original valuations and proposed transitional arrangements to ensure that any significant changes in liability for individual households are phased over time.

6.39 Holtham (2014) examined council tax in Wales suggesting that post UK welfare reform, council tax is two things: a charge for local services and a property tax. He therefore argues for:

- A basic element paid by all to cover services regardless of property value;
- A proportionate rise in tax relative to the value of property: if council tax is to be the vehicle for this, then it should be more progressive with more bands (noting that this could also provide for relief for the poor);
- That indexation against local house prices might alleviate unpopularity, particularly if smoothed over time to account for house price volatility: Welsh prices rose by 4.9% p/a since 1995, fell 5% and 10% in 2008 and 2009 respectively and rose by 20% in 2002 & 2003; and
- Rejects the notion that property tax particularly impacts on the asset rich, but suggests that tax could be 'rolled up' as a charge against the house, e.g. deferred until death if occupied by an elderly person.

6.40 Holtham (2014) also criticises 'slab sided' approaches to taxation, i.e. sharp jumps against set thresholds. He suggests reform or possibly the use of council tax as an alternative, and at the same time, perhaps removing single occupier discount or other current allowances that he judges inappropriate.

6.41 A number of international experts have interpreted the evidence into a set of principles. Inevitably there are similarities and differences. For example Rosengard (2012) and Bahl (2009) agree that any system needs to be simple enough to gain the confidence of the population. But they also disagree on. Rosengard claims that leaders seldom have the opportunity to design a new property tax from a blank slate, while Bahl argues that government should adopt a 'policy first' approach. The box below and Annex 3 give further detail.

Source: Rosengard 2012

Rosengard's Principles of Property Tax Reform: leaders seldom have the opportunity to design a property tax with a blank slate. There is usually an existing system, established special interests and a political, social, and historical context. The main shortcoming of reforms is a failure to articulate a clear rationale for reform, identifying four primary reasons for property tax reform:

- ☐ Improved fiscal performance
- ☐ Social equity.
- ☐ Economic efficiency.
- ☐ Administrative cost-effectiveness.

Rosengard identifies four fundamental principles of property tax reform, regardless of the primary rationale for reform:

- Simple in practice trumps optimal in theory given real-world constraints.
- Revenue generation trumps social engineering: property tax is a poor tool for non-revenue objectives such as attracting investment, social goals, recovering capital costs (e.g. those incurred in large-scale infrastructure investment, or redistributing incomes: other policy tools are better suited to these objectives.
- Economics of taxation trumps political mathematics: it might be tempting use tax exemptions, exclusions, deductions to favour specific objectives, but these reduce revenue and / or trigger corresponding budget cuts, or increased tax rates on the remaining smaller tax base to generate an equivalent amount of money: a maxim of taxation economics is a large tax base and a low tax rate.
- Behavioural change trumps “paper tigers”: it is more cost-effective if people comply voluntarily with tax law rather than through enforcement measures: this suggests the need for a rational system [as far as is possible] from taxpayer and tax administrator perspectives, and be seen as a “socially desired action”.

Other Local Taxes

6.42 The Holtham Commission (2010) supported the principle of Welsh local government being able to raise ‘other’ taxes and examined three possible taxes:

- A tourism tax.
- Corrective taxes to discourage activities such as alcohol abuse and the costs that such activities impose on the public purse, environmental taxes aimed at discouraging poor environmental outcomes or raising revenue to address impacts (the externalities).
- Natural resource taxes to provide a return for the use of Welsh resources.

6.43 The Commission suggested that a guiding principle should be that any revenue raised by such taxes should be retained in Wales for expenditure on devolved services. Of the three options, the Commission:

- Was equivocal about the complexities and need for the necessary mechanisms for raising a tax on alcohol, but did not dismiss the notion of corrective taxes on products that are harmful to health. No specific observations were made on the potential for this to be levied through local government.
- Suggested that national Welsh potential for taxing natural resources is limited, but that certain devolved responsibilities might have potential, but again made no specific observations about whether this should or could be a Welsh Government responsibility or devolved to local government.
- Suggested that any tourism tax might raise £20m p/a across Wales if set at a low rate, and on this basis would result in little economic distortion, and that as costs and externalities fall mostly on localities, this might be an option for local government.

6.44 Support for a Welsh tourism tax collected through local authorities has recently also come from the Bevan Foundation (Mansour 2016), with a question about whether it might alternatively act as a levy with the Tourist industry involved in decisions about revenue spend.

6.45 Tourism taxes are relatively common internationally with 17 EU countries having some form of tourist-related tax, mostly levied on the provision of accommodation (Ranson 2014), although there is a campaign to reduce overall taxation on tourism to act as an incentive, focusing on reducing the VAT burden.

6.46 Overall, this analysis of the evidence suggests potential for some new taxes to be levied through local government and maybe retained by local government, but nothing to suggest that this is substantial enough to make a strategic difference to local government funding.

7. Resource allocation and distribution

Introduction

7.1 This section examines approaches to resource allocation and distribution between local authorities. It considers the traditional approach in Wales and in other parts of the UK and then explores some arguments for and against different directions of possible reform. Specifically the section looks at approaches which have sought to incentivise performance through systems of finance and funding.

Context

7.2 The classic principles that govern the allocation of scarce resources in the public sector (outside of market mechanisms and market failure justifications) are efficiency and equity (Musgrave and Musgrave 1989). This Review has already explored the tension between these when considering issues of resource allocation and distribution in local government finance.

7.3 While there are differences, all UK systems to allocate central grants to local authorities are based on a client group method largely driven by past expenditure, balanced by formulae driven “standard spending assessments”, in a belief that this is an objective method of estimating authorities’ relative expenditure needs.

7.4 The approach seeks to take into account variations in the need for, and cost of, providing services to a similar standard with a similar degree of efficiency and uses indicators selected to objectively compare and assess that need. It was developed in the mid-1970s, and allowed governments to use central grants to local authorities to control the level of local spending to some degree, and to use capping powers targeted on individual authorities deemed to be overspending (Bramley 1990; Midwinter 2001).

7.5 In Wales, Swansea University and Pion Economics were commissioned to undertake a ‘fundamental’ review of Standard Spending Assessments in 2000. This led to some changes in approach and the system is based on some 50 formulae to distribute the available budget between the 22 Welsh Local Authorities. A typical formula comprises a set of indicators reflecting the main client group (population measures driving demand for education formulae, for example, pupil numbers of relevant ages) and, where appropriate, adjustments for deprivation and/or population sparsity. The budget is allocated after taking account of the authority’s ability to raise resources from its own council tax base.

7.6 In short, Welsh Ministers (advised by the Distribution Sub Group and the Partnership Council for Wales) allocate resources on the basis of the differing characteristics within each local authority, to ensure that each local authority can provide a standard level of service.

7.7 Standard Spending Assessments - and other similar UK distribution mechanisms - have been criticised as too driven by inputs and historical spending levels, rather than taking sufficient account of service outcomes and other factors such as deprivation (Bramley 2011 & 1990; Heald 1980 & 1982, Duncan and Smith 1996; Flowerdew et al 1994). For example, allocations are based on statistical analysis of past spending patterns that therefore influence current and future spending. This circularity has been critiqued for a considerable time (Audit Commission 1993; House of Commons Select Committee on the Environment 1994).

7.8 According to the Welsh Government, in Wales recent expenditure patterns drive only the allocation of the total grant between the 49 service areas. The allocations to authorities within these services are then based on a specific funding formula where the underlying data, e.g. pupil numbers, is updated each year. Nevertheless, the weightings attached to these factors within each formula are based on statistical analysis of previous spending patterns at the time the formula was last reviewed. The Distribution Sub Group has for some years aimed to review each of the formulae every five years.

7.9 Others criticise the focus on distributional formulae and advocate simplicity and stability: Travers for example, argues that the perfect grant system “does not exist” and that a simpler system that is “broadly fair” and with broad objectives would work better for local government, rather than attempting objectivity through a complex system. Travers also suggested that this would be more acceptable if local authorities depended less heavily on grant as a source of income (Travers 1986, p201).

7.10 Midwinter also critiques opaque needs-based formulae and suggests a stable ‘core and margins’ approach similar to the Barnett formula, which uses the previous year’s allocation as the core (or baseline) and allocates the margins (or increment of growth) on the basis of population shares” (Midwinter 2001a). However, this begs the question of what happens when funding is reducing. The logic of this approach suggests that in order to protect stability, reductions would be pro rata.

Resource allocation: efficiency and equity

7.11 The evidence base in this area is inconclusive. One reason for this is that few performance regimes tend to be sustainable. According to Rose (2003) performance budgeting systems tend to be identified with particular political regimes and are replaced by their successors.

7.12 However, one significant report (Lockwood and Porcelli, 2013) suggests that strong performance regimes that publicly name and shame authorities will tend to have a greater impact on service quality than on efficiency, i.e., such regimes may increase service output or outcomes but they also increase cost.

7.13 The study undertook a comparative evaluation of service and performance in England and Wales, and particularly the impact of Comprehensive Performance Assessment on English councils. It used Welsh local government as a control group because the structure of local government is comparative and Wales had a weaker performance management scheme (ibid also see Haubrich and McLean 2006; Martin, Downe, Grace & Nutley 2010; Downe, Grace, Martin & Nutley 2010).

7.14 The evaluation concluded that under Comprehensive Performance Assessment, English local government improved service performance more than in Wales but that they also taxed and spent significantly more (Lockwood & Porcelli 2013).

7.15 A Danish study looked at government concerns to address rising costs by redesigning the grants system to give clearer incentives for increased output and outcomes and improved cost efficiency. However, despite several attempts, the policy and changes were unsuccessful (Lotz 2005).

Developing budgeting: inputs, outputs and outcomes

7.16 Traditionally, governments produce annual budgets with three purposes:

- Establish or review resources voted to specific purposes;
- Set priorities for spending and to ensure that money is used for the purposes for which it was voted; and
- Create an audit trail as to how cash has been spent.

7.17 In addition, many governments have tried to develop budget processes to allocate money more effectively and to improve monitoring, and to manage the efficiency and effectiveness with which cash is spent. One such development, pioneered in New Zealand and widely adopted, is to define 'outputs' to be included in the budget and performance management processes. Outputs are, for example, children taught in schools, operations performed in hospitals, lengths of road built and maintained, police patrols carried out etc.

7.18 This approach then sought to establish the unit costs of defined outputs to enable:

- Priority choices on the basis of groups of outputs such as x school child years and y miles of highway maintained rather than crude allocations for education or highways.
- Efficiency targets for outputs for less money or more for the same money.
- Comparisons or benchmarks: so, for example, local authority unit costs can be compared across local government or with alternatives.
- To test alternatives, e.g. the private and voluntary sectors.

7.19 Further development was to budget on the basis of results. Outcome budgeting, or at least the inclusion of outcomes in budget processes has been attempted in many different places (Flynn 2001). For example, many US programmes adopt this approach, and there is some use of this approach in the UK, where providers of services have to demonstrate outcomes before they get paid (National Audit Office 2015). Outcome-based budgeting can be used as a way of making strategic choices, but requires a strategic planning process in which options are set out and choices made.

7.20 Crucially, despite these developments, no government has abandoned input and output based budgets even when using an outcome-based approach. Experience also shows that whilst attractive as the concept, in practice community planning partnerships in Scotland and elsewhere (Audit Scotland 2013b) have encountered obstacles and most have struggled to live up to the often high hopes that policy makers have had for them. The key reasons for this are that:

- Cross-cutting, complex issues are the most difficult to resolve;
- Causality is challenging to establish whether results can be attributed to the performance of managers or workers: the more high-level or complex the outcome (e.g. 'economic prosperity' or 'educated population'), the more factors are involved in producing the outcome and therefore it becomes harder to hold any one organisation or manager to account;
- High level outcomes take a long time to accomplish and are hard to measure, and it is frequently difficult to know what is likely to lead to success (or who was at fault for failure), and this makes accountability difficult to achieve. Some services are more suited than others;
- Even if the right actions are being taken, many outcomes have such embedded structural causes that they are unlikely to improve rapidly in the short-term;
- Probity and the need for an audit trail means that for services provided by employees rather than contractors, governments need to be clear where the money it has voted is spent;

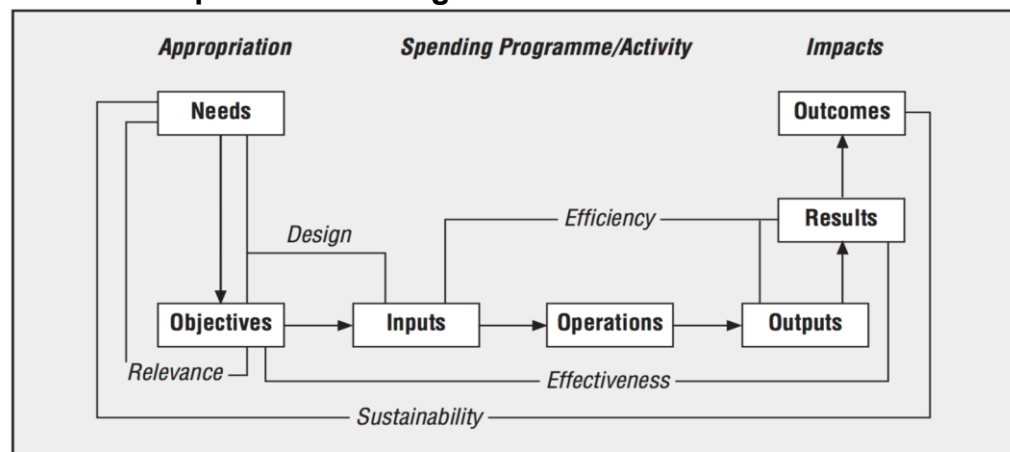
- Some education and healthcare interventions can offer relatively clear outcomes, but outcomes for justice, services such as public tranquility, or environmental services such as public satisfaction with a beach are less easy to measure (Grace, Martin & Bennett 2012; Flynn 2001).

7.21 Brumby and Robinson argue that *outcomes* are the intended effects of government programmes, whereas *outputs* are the means of achieving those outcomes, but that effectiveness and quality of services are outputs that have a central role in a workable form of performance budgeting (Brumby & Robinson 2004, p. 7).

7.22 Webber (2004) argues that countries engaged in outcome specification have experienced significant challenges in maintaining consistency in the definition of outcomes, in maintaining the feasibility and practicality of outcome targets (for example, political pressures to aim higher) and in maintaining specific outcome targets long enough and clearly enough to enable meaningful performance measurement and policy evaluation.

7.23 Without a clear conceptual understanding of the linkages between budgeting and expenditure management and a results-oriented system, many public bodies (particularly as with local government, they have a complex mandate), lack the skills or tools to make the transition (ibid and Grace et al 2012). In practice, the need is to retain the best features of past systems, but integrate them better with processes to define outcomes, i.e., policy design, operations, service delivery and impact assessment. See figure 5 below:

Figure 5: The Expenditure Management Process*



* The power to design public policy evaluation approaches based on the dotted relationships presented across the public expenditure management process is an important feature of this figure, but one that is not fully elaborated in this paper.

Source: Webber 2004

7.24 The National Audit Office reported on UK Government use of outcome-based payment schemes in June 2015, including through the Troubled Families programme in England. The conclusions were that:

- Payment by results is not suited to all public services: it is most likely to succeed if the operating environment has features that include results that can be measured and attributed to providers' interventions. If applied inappropriately, there is a risk that either service quality or value for money may be undermined.
- Commissioners should assess options and justify their selection of payment by results.
- Payment by results is a technically challenging form of contracting with attendant costs and risks that are often underestimated. It is difficult to design effective payment mechanisms and establish the level of performance that would occur without intervention (i.e. causality).
- Supporters argue that the approach offers value for money, but contracts are relatively risky and costly for commissioners. If innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence.

8. Principles of change

Introduction

8.1 There is no single approach to systems of local finance and funding. The evidence is complex and multi-layered. It is not just that there is no “one best way”, but also that different countries with different systems are sometimes trying to do different things or even if they are trying to do similar things they choose to go about it in different ways.

8.2 However, there is evidence to inform some general design principles that operate behind systems of local finance and funding. Such principles should help public policy apply the available evidence systematically in making decisions. We do this through:

- Available evidence to explain differences in approach to local finance and funding internationally;
- The principles, objectives and theoretical approaches behind recent reviews of local finance and funding.

Policy divergence and diversity

8.3 As the comparative review of the international experience in previous sections show, there is a wide range of experience in local financing and funding systems across OECD countries and elsewhere. What possible reasons lie behind these differences and how can they inform lessons of particular relevance to Wales?

8.4 International evidence suggests that local finance and funding policy divergence is driven by at least four main factors (John 2013; Bird 1999). The first three revolve around:

- States not starting from the same position. Finance and funding systems often evolve incrementally from different starting points, drawn from different traditions.
- Systems design reflecting differing objectives, so some states may have decentralisation (or localism) as an objective, or place higher priority on this whilst others may place greater priority on either fiscal control and reduced local expenditure, or believe that service entitlement and standards are national and should be driven nationally.
- Even where comparable states seek to increase local accountability, they may come to different decisions based on different evidence or different interpretations of the evidence.

8.5 Such choices effectively follow from a belief-based position based on what ought to happen and how best to make it happen. Change, in these examples, is based on a series of general theoretical principles about what is best, or at least best in the circumstances.

8.6 Bird argues in a paper for the International Monetary Fund (1999) that there is at least a fourth possible explanation. As governments are political bodies with legitimate political objectives, local finance and funding systems are often influenced by political rationality and history as well as economic theory. Formal economic models of tax assignment - for example - do not provide a good explanation of real life distribution of responsibilities for raising tax revenues because political imperatives and processes are not taken into account by those conventional models.

8.7 Christopher Wales, a former member of the Council of Economic Advisers of HM Treasury (HM Treasury 2011) supported this in relation to the UK tax system, believing that it reflects economic, social and legal history, with legislation based on various and sometimes contradictory principles. He concludes that if legislators were to start afresh, the system would be “constructed somewhat differently”.

8.8 This is important because ultimately the evidence in the preceding section brings into relief a number of key dilemmas for policy-makers because:

- There is no consistent approach to finance funding across the international community; but rather
- Different theoretical and political approaches to the value of fiscal devolution exist; and
- Different theoretical and political approaches to equalisation and behaviour change are possible;
- There is no ideal system, but rather a need for trade-offs, most significantly between autonomy and equity, but also between simplicity and complexity (Holtham, Lyons); and
- All reforms are context specific: historical, political and human factors impact on the viability and timescale of reform programmes.

8.9 In considering the international evidence in relation to Wales and its transferability to the Welsh context, the overall weight of the literature suggests that issues of culture and tradition, objectives, political rationality and approaches and philosophies about how to implement policy goals are key factors which will influence whether policy experience can be transferable.

8.10 With this in mind we now review the design principles, objectives and theoretical approaches behind recent reviews of local finance and funding.

Principles, objectives and theoretical approaches

8.11 While taxation is said to be a fate as sure as death, there has always been a lively debate as to how and whom to tax - and to what end. One theory, advanced by Jean-Baptiste Colbert, the Controller-General of Finances of France under Louis XIV was that:

“The art of taxation consists in so plucking the goose so as to obtain the largest amount of feathers with the least possible amount of hissing.”

8.12 While this might be pragmatic, Adam Smith’s four canons of taxation set out in the *Wealth of Nations* in 1776, offer a more rigorous, theoretical basis for taxation:

- The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state (Equity);
- The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person (Certainty);
- Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it (Convenience);
- Every tax ought to be contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state (Efficiency).

8.13 There remains a near consensus across the political and research spectrum as to the value of these criteria, with recent endorsements from a wide range of sources including the Holtham Commission, the Bevan Foundation, Westminster’s Treasury Select Committee, the Association of Chartered Certified Accountants, the Chancellor of the Exchequer and others.

8.14 However, given the complexity of modern economies and societies, and the analysis of political, cultural and other factors that impact on finance systems and taxation and dictate trade-offs, Smith’s canons are no longer sufficient to be applied directly to contemporary tax systems, but rather a starting point.

8.15 Particularly challenging is the possibility that the enforceability of equity may have limits: countries with higher taxes often have larger black (or informal) economies, but more significantly, globalisation (and potentially devolution) has made tax competition a practical reality.

8.16 Although there is no perfect system, and Rosengard (2012) suggests that “simple in practice trumps optimal in theory,” the evidence base strongly

endorses the need for clear objectives based on a logical theory of change for reform and change. In Wales, the Holtham Commission endorsed the ideal characteristics of a funding system for sub-national governments, originally proposed by the Calman Commission, namely:

- Stability and predictability: so that public spending can be managed properly;
- Simplicity and transparency: so that it is readily implemented and the justification is evident;
- Autonomy: so that the sub-national government can decide how to allocate its resources;
- Efficiency: so that economic distortions created by incentivising movements of people and the factors of production simply to avoid taxes are avoided;
- Equity: so that resources are allocated in a way that takes account of relative need, making it possible to provide a standard level of service in all parts of the country; and
- Accountability: so that the link between decisions made at a specific government level and the tax paid by voters is clear, and that the utility of public expenditure at the margin is balanced against the cost to taxpayers.

8.17 Holtham concluded that no real funding system wholly achieves the objectives set out in Section 7. For example, the system of formula-based block grants traditionally operated at sub-UK (Barnett) or sub-national (local government grants) level score well for stability but they score less well on other principles.

8.18 The Holtham Commission also argued that there is a “fundamental tension between equity and autonomy” with countries that place a high value on treating citizens equally generally being more restrictive “in the degree of autonomy possessed by sub-national governments, while countries that prioritise local autonomy generally accept that this will lead to differing outcomes for citizens in different regions” (Holtham 2009).

9. Conclusions: Judgements and Enduring Dilemmas

Introduction

9.1 Lyons (2007) examined the potential trade-offs and judgements involved in local government finance reform identifying that objectives for reform may pull in different directions (Lyons, 2007, p213, see also Bramley, 1990, p1), and summarised them as revolving around deciding:

- What is the right balance of fairness between different groups of taxpayers?
- Who are reliefs and benefits targeted towards?
- What is the right balance between taxpayer subsidy and user-charge?
- Simplicity for the sake of accountability, or complexity for the sake of fairness or local flexibility?
- How far equalisation between areas is appropriate, and how far it should be reduced to improve the incentives acting on local government?
- Which is preferable in local funding: buoyancy, or stability?

9.2 Also, as noted in earlier sections, objectives and priorities are not value free. Holtham concludes “No area could be more essentially political than taxation ... how much revenue, which taxes, levied on whom - those are all political matters that must be settled by democratic decision” (Holtham 2010). Political values, considerations and constraints are key drivers of reforms to finance and funding and it follows that studies which simply address technical, apolitical aspects of finance reform cannot capture the reality of policymaking in the real world (Hogwood and Gunn 1984).

9.3 Midwinter and Mair (1987) argue that the selection of a form of local government finance cannot be treated in isolation from the whole system, nor should it be discussed as “an ideal form”. Rather it will need to reflect and respond to a system characterised by interdependence, pluralism and incrementalism (i.e. suited to the adjustive capacity in the administrative, political and economic context). This Review has sought to integrate a political economy perspective to better capture these dimensions of reform processes (Castanheira et al 2012; de Souza 2013).

9.4 In concluding we summarise evidence around some of the key issues that relate to the Welsh context as emerge from the report of the Commission on Public Service Governance and Delivery in 2014 (Williams 2014):

- Complexity, governance and accountability;
- Scale;
- Leadership culture and values;

- Performance.

Complexity

9.5 Williams identified four dimensions of complexity in public services in Wales:

- The formal interrelationships, reporting lines and accountabilities between public bodies (relationship complexity);
- The geographical boundaries of public bodies and the extent to which they are coterminous (spatial complexity);
- The respective responsibilities of public bodies, and the overlaps and duplications between them (functional complexity);
- The arrangements for working across organisational boundaries through partnerships and similar (collaborative complexity).

9.6 Systems of finance and funding reflect this complexity and effective reform needs to respond to the interdependencies and relationships between form, function and finance, and therefore take a whole system approach.

9.7 Reviewing the balance of funding is fundamentally connected to questions of wider governance and accountability. In a small country such as Wales there is an intergovernmental sharing of interests in the achievement of outcomes. Improvements in services such as education, social services and the environment are of consequence and of legitimate interest to both local and central government. Governance and accountability are therefore best thought of as multidimensional and networked rather than binary and hierarchical (Grace, Martin and Bennett 2012).

9.8 Equally questions of local taxation cannot be answered in isolation from national taxation, not least because no single tax can embody all ideal properties or objectives. Similarly, approaches to the allocation or distribution of scarce resources depend in part on decisions about the scale of local authorities, the responsibilities they are to hold and the extent and desirability of central controls on local expenditure.

9.9. Midwinter and Mair (1987) suggest that the interdependence of central and local government has three key features:

- A shared electorate whose “needs” are of interest to local and national governments (see also Dunleavy 1980);
- Shared responsibilities (e.g. education, environment, social services);
- Shared finance: both levels of government raise taxation.

9.10 Arguably the issue of the balance of funding and local liberty resembles Isaiah Berlin's distinction between two concepts of freedom, negative and positive (Berlin 1969):

- Negative freedom is the absence of (or freedom from) externalities;
- Positive freedom is the ability to (or the freedom to) act in the way one chooses.

9.11 Viewed in this way, local authorities could gain negative freedom by cutting the ties that come with central funding and expectations but many would lose the positive freedom to act because their access to resources would be significantly diminished (as suggested by Walker 2002) by such a separation.

Scale and capability

9.12 As noted above, issues of scale and resource allocation are fundamental. The lessons of past re-organisations are pertinent. Questions of horizontal equity become more acute where authorities operate at a smaller scale and therefore have less capacity to balance resources between localities with differences in population age structure, physical geography, income and deprivation.

9.13 For Williams, the issue of scale was complementary and interrelated to the other problems found across Welsh local government. In short, that reform demands more than redrawing boundaries or restructuring organisations (Williams 2014, p67). The findings of this review strongly support this contention: smaller sized authorities may provide greater local autonomy in the sense of distinctiveness, but may also require larger central intervention to achieve equitable distribution.

9.14 In principle, larger scale authorities potentially reduce reliance on central decisions about allocation by taking capability and responsibility for their own internal redistribution, if greater local autonomy and accountability is a key objective for reform.

9.15 However, this Review also suggests that further work may be desirable once the pattern of new Welsh local authority boundaries is clear given the diversity of social and economic conditions and populations across Wales (see section 4).

Leadership, culture and values

9.16 Beecham describes a public service tradition in Wales characterised by its "mutuality". While endorsing its "collaborative ethos" Beecham also identified "a culture of compliance" and suggested that there was "the

impression that Wales is wedded to traditional service delivery models and accepts current standards of performance” (Beecham 2006).

9.17 More recently Williams explored “whether leadership, culture and values within the Welsh public sector were aligned with current and future challenges and whether they were conducive to high performance, flexibility and responsiveness” (Williams 2014, p7). He concluded that values and cultures within the Welsh public sector are not so aligned, and feature parochialism, defensiveness and insularity rather than innovation, flexibility and responsiveness.

9.18 Williams also suggested that while there was some good leadership within the public sector, there is insufficient action to recruit or retain good leaders, or to identify and develop the leaders of the future (ibid p252).

9.19 The findings of this Review suggest that Welsh local finance and funding reforms need to support traditions and approaches (old and new) that strengthen efficient and effective service delivery and development, and challenge those that weaken or obstruct these goals. This will involve asking questions about whether and how far it is necessary to challenge and diverge from the tradition of collaboration and shift towards greater competition choice and/or willingness and ability on the part of citizens and businesses to pay for services.

Performance

9.20 Williams identified fundamental challenges facing the public sector in Wales, concluding that the performance of the main public services in Wales is generally poor and patchy, characterised by a lack of ambition, and comparatively under-performing. In short, substantial change is needed to achieve sustainable and good quality services (ibid p190). The critique is that the problem has root causes in inherently poor systems, structures, governance and leadership (ibid p209)

9.21 William also identified future pressures on services and public policy that this review has also identified around increasing demand alongside decreasing public resources to provide them. The result is an argument for a radical restructuring of public expenditure to reduce need through a focus on prevention and a system of performance reporting focused on outcomes rather than inputs. While Williams discusses incentive schemes, the report stops short of proposing any fundamental shift in finance and funding of local authorities on this basis. Our evidence draws a similar conclusion.

9.22 There is insufficient evidence to demonstrate how finance systems can fundamentally shift to focus on prevention or on the attainment of outcomes, rather than on inputs or outputs. The evidence we have reviewed suggests:

- That a shift to achieve *more* focus on funding outcome-based objectives is achievable if – and only if – policy, service design and delivery, and evaluation processes are adjusted accordingly, and that objectives are clear and measurable, but that it is not practical as an across the board principle; so
- Inputs and outputs are useful as part of a wider reformed system and help accountability and transparency
- Finance reform cannot be addressed in isolation from wider clarity about the objectives set for local government; and in particular
- Effective finance reform requires allied and effective performance and improvement frameworks.

Judgements and Dilemmas

9.23 Overall the evidence is complex and offers no single model for local government finance reform, but rather a need to establish acceptable trade-offs and policy choices between the relative weight that should be given to key considerations such as:

- ☐ How to recognise and take account of the vertical and horizontal interdependence of central and local government and other public services in the design and reform of local government, including in changes to finance and funding.
- ☐ The need for equity between places against the desirability of local governments that reflect the needs and wants of their particular places;
- ☐ The desire to incentivise good performance, against the difficulties of penalising poor performance where such penalties may impact on service users;
- ☐ The balance of which services should be paid for by all taxpayers and which by users;
- ☐ The requirement that distributional formulae fully capture need against the desirability of a system that is simple and transparent.
- ☐ The need to gain and sustain popular and political support for reform of finance and funding and the implementation of a new system.

Annex 1: A review of normative tax-grants theory¹

A1.1 The normative theory of fiscal federalism suggests that funding of sub-national government spending should be by own taxes in which the sub-national government freely chooses the tax rate. In practice this implies that own taxes should be the primary revenue source for sub-national governments. Grants are viewed as a supplementary means of finance. This derives from:

- The proposition that under certain conditions decentralised provision of public goods and services is at least as efficient in consumption as central government provision in that efficiency in consumption requires diversity of preferences for public services to be matched with diversity in provision; and
- That sub-national financing of decentralised goods and services by free choice of its tax rate provides the proper incentives to induce efficient spending choices by sub-national governments.

A1.2 The proposition that decentralised provision of goods and services is efficient was given the status of a theorem by Oates' Decentralisation Theorem (1972, p. 35). Given the Decentralisation Theorem, the next question is how decentralised goods should be financed in order for sub-national governments to have the incentives to spend in a manner consistent with the achievement of consumption efficiency. To achieve such efficiency, sub-national governments must equate the social marginal benefit and the social marginal cost of their decision. As the sub-national government (SCG) is providing the good or service in question it should know the marginal benefit; indeed, it is often argued that the sub-national level of government knows better than the central government the marginal benefit of the public spending that it undertakes. In order for the sub-national government to pay the true social marginal cost of its decision (absent externalities), it must bear the full cost of the last dollar of its spending. Otherwise (except coincidentally) the sub-national government will not consider the true marginal cost of its spending decision and efficiency will not be achieved. If the SCG is allowed to freely choose a tax rate (technically for the last dollar of spending), it will incur the full marginal cost of that decision and consequently will choose a tax rate that equates the marginal cost and marginal benefit of spending.

A1.3 The theorem and the corollary that own tax finance is efficient rest on certain assumptions. Primary among these is an assumption that there are no externalities. If externalities are involved, sub-national provision will generally not produce an efficient outcome, since private and social marginal cost (or benefit) will not coincide. Various types of externalities can arise such as a

¹ Based on Charbit 2010

spillover benefit of public spending across jurisdictional lines, tax-exporting, and tax- competition. These can be positive or negative externalities and can lead to under- or over-provision of public goods and services by sub-national governments. Moreover, the tax revenue base used by the sub-national government should be an immobile resource such as land or a benefit tax which effectively confines sub-national tax revenue mainly to taxes on property and user fees.

A1.4 Intergovernmental transfers are viewed as a supplementary means of finance to:

- Internalise externalities in sub-national public service provision. For instance, a matching grant will lower the price faced by the sub-national government for one more dollar of spending and encourage spending. If the matching rate is chosen judiciously, the matching grant can be set to induce the efficient level of sub- national spending;
- Redistribute across regional governments in a country. Several reasons are offered for such redistribution. First, such transfers can be thought of as a type of insurance. If a shock (that is not perfectly correlated across jurisdictions) hits, consumption can be smoothed through transfers from the region less impacted to the region more impacted by the shock. Second, SCGs are sometimes given responsibility for implementing national programs that are intended to be equally provided across all regions of a country;
- Instigate development and growth in certain regions. This can be thought of as an attempt to correct for certain horizontal imbalances or inequities in economic opportunities across regions;
- Take advantage of economies of scale in tax collection (by the central government).

Annex 2: International comparison of property taxes imposed and distribution of property tax revenues

A2.1 All European countries surveyed by the UN Habitat programme (UN 2013) have at least one tax on property, and most several. Of the 46 countries surveyed, at least 44 have at least one recurrent tax on immovable property (Malta and San Marino do not). Table 1 summarises the analysis showing which countries use which types of taxes and which tiers of government receive revenues from taxes on property. The data shows that the UK has a high reliance on recurrent, immovable property tax and that central government receives more than two-thirds of the revenue from this tax.

Table 1: Property Taxes Imposed and Distribution of Property Tax Revenues

Country	Property taxes utilized & relative reliance on each type of tax						Revenue recipients (Percent of total property taxes)		
	Recurrent, Immovable	Recurrent, net wealth	Estates, inheritances, gifts	Financial & capital transfers	Other non-recurrent	Other re-current property	Central	State (regional)	Local
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Albania	Low	No	No	No	No	No	0.0	0.0	100.0
Armenia	Mid	No	No	No	No	No	0.0	0.0	100.0
Austria	Low	No	Mid	Mid	No	No	14.4	4.4	81.2
Belarus	Mid	High	No	No	No	No	0.0	0.0	100.0
Belgium	High	Mid	High	High	Mid	No	11.3	51.6	37.1
Bosnia-Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.1	0.0	89.9
Bulgaria	Mid	No	High	No	No	High	0.0	0.0	100.0
Croatia	Low	No	Low	Mid	No	No	51.7	0.0	48.3
Cyprus	Mid	Mid	Mid	Low	No	No	91.7	0.0	8.3
Czech Republic	Low	No	Low	Mid	No	No	67.1	0.0	32.9
Denmark	Mid	Mid	Mid	Low	Low	No	50.7	0.0	49.3
Estonia	Mid	No	No	No	No	No	0.0	0.0	100.0
Finland	Mid	No	High	Mid	No	No	55.4	0.0	44.6
France	High	High	High	Mid	No	Mid	19.3	0.0	80.7
Georgia	Mid	No	No	No	No	No	0.0	0.0	100.0
Germany	Mid	No	Mid	No	High	Low	0.0	52.3	47.7
Greece	Low	Mid	Mid	High	Mid	High	87.8	0.0	12.2
Hungary	Mid	No	Mid	Mid	No	No	37.6	0.0	62.4
Iceland	High	Low	No	Mid	Mid	Low	19.6	.0	80.4

Table: Property taxes imposed and distribution of property tax revenues
(continued)

Country	Property taxes utilized & relative reliance on each type of tax						Revenue recipients (Percent of total property taxes)		
	Recurrent, immovable	Recurrent, net wealth	Estates, inheritances, gifts	Financial & capital transfers	Other non-recurrent	Other re-current property	Central	State (regional)	Local
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Ireland	High	No	Mid	No	No	No	19.4	.0	80.6
Italy	Mid	Mid	Mid	No	No	Mid	4.5	0.0	95.5
Kazakhstan	High	No	No	No	No	Mid	0.0	0.0	100.0
Kosovo	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Latvia	Mid	No	No	No	No	No	0.0	0.0	100.0
Lithuania	Mid	No	Low	No	No	No	0.0	0.0	100.0
Luxembourg	Mid	Low	Low	Mid	No	No	92.2	0.0	7.8
Macedonia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Malta	No	No	Mid	High	No	No	100.0	.0	.0
Moldova	Low	No	No	No	Low	High	3.4	.0	96.6
Montenegro	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	Mid	Low	High	High	No	Mid	69.3	.0	30.7
Norway	Low	Mid	Mid	Low	No	No	53.5	.0	46.5
Poland	High	No	Mid	No	No	Low	0.0	0.0	100.0
Portugal	Mid	No	Low	Mid	No	No	0.4	0.0	99.6
Romania	High	No	No	Low	No	No	2.8	0.0	97.2
Russia	High	No	Low	No	No	Mid	0.0	79.1	21.0
San Marino	No	No	High	High	Mid	No	100.0	0.0	0.0
Serbia	Mid	No	Low	Mid	No	Low	0.4	0.0	99.6
Slovakia	Mid	No	Low	Low	No	No	0.6	0.0	99.4
Slovenia	Mid	Low	Mid	Low	No	No	0.0	0.0	100.0
Spain	High	Mid	High	High	Mid	No	0.7	58.9	40.4
Sweden	Mid	No	Low	Mid	No	No	60.8	0.0	39.2
Switzerland	Low	High	Mid	Mid	No	No	19.1	50.0	31.0
Turkey	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ukraine	Low	No	No	No	No	No	0.0	0.0	100.0
United Kingdom	High	No	Mid	Mid	High	No	68.7	0.0	31.3
Number of. countries	39	13	29	25	9	11			

Source: UN 2013

Annex 3: Designing and implementing property tax reform²

A3.1 Based on extensive research of the international evidence, Roy Bahl, Regents Professor of Economics, Andrew Young School of Policy Studies at Georgia State University sets out key principles to help guide governments and policy makers considering how to design reforms systems of local taxation.

A3.2 First, do a thorough diagnostic of the existing system of property taxation, examining specifically what is working and what is not. This is a good way help government focus on what it most wants to accomplish with the property tax, whether it is revenue mobilisation, fiscal decentralisation, land use control, or something else. Several useful models for such a diagnostic are available.

A3.3 Second, government reform packages would do well to adopt a “policy first” stance. Unless the tax structure is simple enough to be efficiently administered, and fair enough to gain the confidence of the population, administrative reform by itself will not succeed. Administrative reform comes second, but of course is essential to the success of any reform.

A3.4 Third is the difficult question of which tax base is best: rental value, capital value of land and improvements, land value, or physical area. Though the international trend seems to be toward capital value of land and improvements, the fact is that any of the four can work effectively. The right choice needs to be determined by the specifics of the country and context.

A3.5 Fourth is the need to restrict exemptions to those properties that meet certain criteria, such as properties that are protected from domestic taxation by international treaty, properties with merit uses (e.g., schools and churches), and perhaps properties of low value. Other exemptions tend to be politically driven, erode the tax base substantially, and introduce unfairness to the system. Arguably the most problematic of the preferential treatments is that given to owner-occupiers, and to government properties. These issues are too sensitive to warrant a blanket recommendation to discontinue them, but best practice might dictate the following actions:

- Place a “sunset clause” on all exemptions. Make renewal dependent upon a successful evaluation. At a minimum, institute a periodic review of property tax exemption policy with the goal of determining whether exemptions continue to serve their intended purpose.
- Adopt the practice of valuing all property, whether taxable or exempt, and publish an annual tax expenditure note for the property tax quantifying the revenues foregone from exemptions and other reliefs.

² Based on Bahl 2009

- Charge a payment in lieu for government properties and for relevant non-profit uses of property, to reflect or approximate their use of local services.

A3.6 Fifth is the question of how poor families should be treated under the property tax. There is some rough justice and probably little revenue loss in exempting low-valued properties. But, the case for providing preferential treatment for pensioners or for larger family sizes would seem less easily justified.

A3.7 Sixth, best practice shows that all four steps in property tax administration (identification of properties, valuation, record keeping, and collections) must be part of any administrative reform program. To leave out even one of the basic pillars of administration may jeopardise the success of a property tax reform, whether in terms of revenue mobilisation or any other objectives the reform was designed to achieve.

A3.8 Seventh, adopt any reasonable measures to raise collection rates, especially in low-income and transition countries where collection rates tend to be miserably low. A more horizontally equitable tax structure can contribute to this by removing preferential treatments. This will give taxpayers a sense that the property tax is fair, and might even increase property owners' willingness to pay.

A3.9 Finally, the local (or central) government should establish a monitoring activity that will help with tracking the success of a reformed property tax. The following are some of the important components of such diagnostics:

- Carry out an annual sales ratio study of properties in order to track the disparity between the sales value of property and the actual market value.
- Do an annual analysis of the collection rate.
- Prepare an annual tax expenditure note for the property tax in order to track the cost of exemptions.
- Track the activities of the property transfer tax office in terms of declared vs. actual values of property, and the percent of unchallenged declarations.
- Do an annual breakdown of revenue collections by sub-categories.
- Prepare an annual delinquent list, classified by status (collectible or bad debt).

Annex 4: Interviews conducted

A4.1 Interviews were conducted with the following experts as part of the research:

Professor David Heald: Professor of Public Sector Accounting, Adam Smith Business School, University of Glasgow

Professor Tony Travers: Director of LSE London and Chair of the Independent Commission on Local Government Finance Wales

David Phillips, Senior Research Economist, Institute for Fiscal Studies

Rob Whiteman, Chief Executive, Chartered Institute for Public Finance and Accountancy.

References and Key Sources

- ACCA (2011) *12 Tenets of Tax*, The Association of Chartered Certified Accountants: London
- Agegnehu, A. et al (2015) "Tax Assignment: Theory Nexus Practice in Australia, Canada, Germany, Ethiopia and Switzerland: Review" *Research Journal of Finance and Accounting* Vol.6, No.7, 2015
- Ahmad, E. (2010) "The political-economy of tax reforms in Pakistan: the ongoing saga of the GST" *LSE Asia Research Centre Working Paper* 33
- Alam, J., Buschman, R.D. & Sjoquist, D.L (2012) *Rethinking local government reliance on the property tax*, Tulane Economics Working Paper Series, Tulane University
- Andrews, R. & Martin, S. (2010) "Regional Variations in Public Service Outcomes: The Impact of Policy Divergence in England, Scotland and Wales" *Regional Studies*, Vol. 44, 8
- Audit Commission (1993) *Passing the Bucks: The Impact of Standard Spending Assessments on Economy, Efficiency and Effectiveness*, London: HMSO
- Audit Commission (2008) *Positively charged: Maximising the benefits of local public service charges*, Audit Commission: London
- Auditor General for Wales (2014) *The Financial resilience of councils in Wales*, Wales Audit Office: Cardiff
- Audit Scotland (2013a) *Charging for services: are you getting it right?* Accounts Commission: Edinburgh
- Audit Scotland (2013b) *Improving community planning in Scotland*, Edinburgh
- Auditor General Wales (2014) *The Financial resilience of councils in Wales*, Wales Audit Office: Cardiff
- Australian Government Productivity Commission (2008) *Assessing Local Government Revenue Raising Capacity*, Australian Government Productivity Commission
- Baars, S. (2014) *Need to Know Review Number Four: The Levers of Local Economic Development*, Local Government Knowledge Navigator: London
- Bahl, R. (2009) *Property Tax Reform in Developing and Transition Countries*, USAID: Washington DC
- Bahl, R & Bird, R. (2008) Subnational Taxes in Developing Countries: The Way Forward, *Public Budgeting & Finance*, Volume 28, Issue 4, pages 1–25, Winter 2008

- Bahl, R. & Martinez-Vazquez, J. (2007) *The Property Tax in Developing Countries: Current Practice and Prospects*, Working Paper WP07RB1, Cambridge, MA: Lincoln Institute of Land Policy
- Bardhan, P. & Mookherjee, D. (2000) "Capture and Governance at Local and National Levels," *The American Economic Review*, Vol. 90, No. 2, Papers and Proceedings of the One Hundred Twelfth Annual Meeting of the American Economic Association. (May, 2000), pp. 135-139
- Beecham, Sir Jeremy (2006) *Beyond Boundaries Citizen-Centred Local Services for Wales: Review of Local Service Delivery*, Report to the Welsh Assembly Government, Cardiff
- Bell, D. et al (1996) *Financing devolution*, Hume papers on public policy: Volume 4, No. 2, The David Hume Institute, Edinburgh University Press: Edinburgh
- Berlin, I. (1969) "Two Concepts of Liberty" in *Four Essays on Liberty*. Oxford: Oxford University Press
- Bibb, K. & Christie, L. (2015) *International Literature Review for the Commission on Local Taxation*, Edinburgh
- Bibby, P. & Brindley, P. (2013) *Urban and Rural Area Definitions for Policy Purposes in England and Wales (v1.0)*, Office for National Statistics: London
- Bird, R. (1999) *Rethinking Subnational Taxes: A New Look at Tax Assignment*. IMF Working Paper, 99/165
- Bird, R., et al (2003) "Assignment of Responsibilities and Fiscal Federalism," *Politorbis* No 32 – 1/2003
- Bird, R & Slack E. (2002) *Land and Property Taxation: A Review*, World Bank: Washington DC
- Bird, R & Slack E. (2013) "Local Taxes and Local Expenditures: Strengthening the Wicksellian Connection." International Center for Public Policy Working Paper 13-23
- Bird, R. & Smart, M. (2002) "Intergovernmental Fiscal Transfers: International Lessons for Developing Countries," *World Development* Vol. 30, No. 6, pp. 899–912, 2002
- Bird, R. & Tsiopoulos (1997) 'User Charges for Public Services: Potentials and Problems,' *Canadian Tax Journal*, Vol. 45, No.1
- Blöchliger, H. & Petzold, O. (2009) *TAXES AND GRANTS: ON THE REVENUE MIX OF SUB-CENTRAL GOVERNMENTS*, OECD Network on Fiscal Relations Across Levels of Government: Paris
- Bramley, G. (1990) *Equalisation Grants and Local Expenditure Needs: The price of Equality*, Avebury: Aldershot

- Bramley G. et al (2011) "An outcome-based resource allocation model for local education services in Wales," *Environment and Planning C: Government and Policy* 2011, volume 29, pages 848-871
- Brumby, J. and Robinson, M. (2004) "Performance Budgeting, an Overview", paper prepared for the International Seminar on Performance Budgeting, IMF and Brazilian Ministry of Planning, Budget and Management, Brasilia.
- Burt Review (2006) *A Fairer Way: Report by the Local Government Finance Review Committee*, Edinburgh
- Business Rate Panel (2015) *The Devolution of Business Rates to Wales*, Report to the Minister for Economy, Science and Transport from the Business Rates Panel, Welsh Government: Cardiff
- Butler, D., Adonis, A. & Travers, T. (1994) *Failure in British Government: The politics of the Poll Tax*, Oxford University Press: Oxford
- Calman Commission (2009) *Serving Scotland Better: Scotland and the United Kingdom in the 21st Century*, Final Report, Commission on Scottish Devolution: Edinburgh
- Castanheira et al (2012) "On the Political Economics of Tax Reforms: survey and empirical assessment" *International Tax and Public Finance* August 2012, Volume 19, Issue 4, pp 598-624
- Charbit, C. (2010) "Explaining the Sub-National Tax- Grants Balance in OECD Countries", *OECD Working Papers on Fiscal Federalism*, No. 11, OECD Publishing
- Crook, R & Sverrisson, A.S (2001) *Decentralisation and poverty-alleviation in developing countries: a comparative analysis*, Institute of Development Studies: Brighton
- COSLA (2013) *LOCAL GOVERNMENT FUNDING REVIEW*, Convention of Scottish Local Authorities: Edinburgh
- Curtis M. (2011) "Localism and local government finance," *Local Economy* 2011 26: 684
- Data Unit (2016) InfoBaseCymru <http://www.infobasecymru.net/IAS/eng>
- de Souza, S. (2013) *The Political Economy of Tax Reform in Latin America: A Critical Review*, WOODROW WILSON CENTER UPDATE ON THE AMERICAS, Wilson Centre: Washington
- Downe, J, Grace, C, Martin, S & Nutley, S. (2010) 'Theories of public service improvement: A comparative analysis of local performance assessment frameworks' *Public Management Review*, vol 12, no. 5, pp. 663-678.
- Duncan A. & Smith P. (1996) "Modelling Local Government Budgetary Choices under Expenditure Limitation," *Fiscal Studies* (1996) vol. 16, no. 4, pp. 95-110

- Evandrou et al. (2015) *Local Government and the Demography of Ageing*, Local Government Knowledge Navigator: London
- Ezzamel, M. et al (2008) *Accounting in Politics: Devolution and democratic accountability*, Routledge: London
- Faguet, J-P. (2004) "Does decentralization increase government responsiveness to local needs? Evidence from Bolivia," *Journal of Public Economics* 88 (2004) 867–893
- Fisher, R.C. (2009) What Policy Makers Should Know About Property Taxes. *Land Lines*, January, 8-14
- Flowerdew, R. et al (1994) The Standard Spending Assessment as a Measure of Spending Needs in Nonmetropolitan Districts, *Environment and Planning C: Government and Policy*, March 1994 vol. 12 no. 1 1-13
- Flynn, N. (2001) *Moving to Outcome Budgeting*, Research COMMISSIONED FOR THE FINANCE COMMITTEE BY THE SCOTTISH PARLIAMENT RESEARCH AND INFORMATION GROUP, Scottish Parliament: Edinburgh
- Gatehouse, M. & Price, A. (2013) *State of Innovation Welsh Public Services And The Challenge of Change*, NESTA London
- Grace, G. Martin, S. and Bennett, M. (2013) *Achievement and Accountability: Inspiring performance in Northern Ireland local government*, UK Research and Consultancy Services: Belfast City Council
- Griffith, J.A.G. (1966) *Central departments and local authorities*, George Allen & Unwin: London
- Hallwood, C. P. & MacDonald, R. (2009) *The Political Economy of Financing Scottish Government: Considering a new Constitutional Settlement for Scotland*. Series: Studies in fiscal federalism and state-local finance. Edward Elgar: Cheltenham
- Haubrich D. & McLean I. (2006) "Evaluating the performance of local government a comparison of the assessment regimes in England, Scotland and Wales", *Policy Studies*, 27(4):271-293
- Heald, D. (1980a), "The Scottish Rate Support Grant: How Different from the English and Welsh?" *Public Administration*, 58: 25–46.
- Heald, D. (1980b) *Financing devolution within the United Kingdom: a study of the lessons of failure*, Research Monograph No. 32, Centre for Research on Federal Financial Relations, The Australian National University, Canberra
- Heald, D. (1996) "TERRITORIAL PUBLIC EXPENDITURE IN THE UNITED KINGDOM," *Public Administration*, Volume 72, Issue 2, pages 147–175, June 1994

Heald, D. & McLeod, A. (2005) "Embeddedness of UK Devolution Finance within the Public Expenditure System," *Regional Studies*, Vol. 39.4, pp. 495-518, June 2005

Heald, D. (2014) *Memorandum to the Smith Commission: THE FUTURE FINANCING OF THE SCOTTISH PARLIAMENT*, Smith Commission: Edinburgh

Hendrick, R. Wu, Y & Jacob, B. (2007) "Tax Competition Among Municipal Government: Exit Versus Voice," *Urban Affairs Review*, November 2007 vol. 43 no. 2 221-255

HM Treasury (2015) *Spending Review and Autumn Statement 2015*, HMT: London

Holtham Commission (2009) *Replacing Barnett with a needs-based formula – Independent Commission on Funding & Finance for Wales*, Interim Report December 2009, Welsh Government: Cardiff.

Holtham Commission (2010) *Fairness and accountability: a new funding settlement for Wales - Independent Commission on Funding & Finance for Wales*, Final Report, Welsh Government: Cardiff

Holtham, G. (2014) *Taxation in Wales*, Senedd paper #2, Institute of Welsh Affairs: Cardiff

House of Commons Library (2002) *Local Government Finance in England: replacing the Standard Spending Assessment*, RESEARCH PAPER 02/56, House of Commons: London

House of Commons Library (2014) *English Local Government Finance: Issues and Options*, RESEARCH PAPER, House of Commons: London

House of Commons Select Committee on the Environment (1994) *Standard Spending Assessments*, London: HMSO

House of Commons Treasury Committee (2011) *Principles of tax policy*, Eighth Report of Session 2010–11, Volume II, House of Commons, London: The Stationery Office Limited

ICLGF (2015) *Financing English Devolution*, Final Report of the Independent Commission on Local Government Finance, LGA/CIPFA: London

IFS (2007) *A Survey of UK Local Government Finance*, Institute of Fiscal Studies, London

Jeffs, M. (2015) *Future Pressures on Welsh Public Services: Financial demand and other cost pressures to 2025 and a review of potential responses*, Wales Public Services 2025, Cardiff

Johannesson-Linden, A & Gayer C. (2012) *Possible reforms of real estate taxation: Criteria for successful policies*, European Commission, Directorate-General for Economic and Financial Affairs, Occasional Papers 119

John, P. (2013) *New directions in public policy: theories of policy change and variation reconsidered*, presentation at the International Conference on Public Policy, Grenoble, June 26-28 2013

Kitchen, H. (2003) *Local Taxation in Selected Countries: A Comparative Examination*, The Consortium for Economic Policy Research and Advice, Association of Universities and Colleges of Canada

Kovács, G. (2009) *Local taxes: Theory and the practice*, Conference paper presented to The Network of Institutes and Schools of Public Administration in Central and Eastern Europe

Layfield Committee (1976) *Committee of Inquiry into Local Government Finance*, Cmnd 6453

LGA (2015) *Business rate retention: the story continues*, Local Government Association: London

Lindén, A.J. & Gayer, C. (2012) *Possible Reforms of Real Estate Taxation: Criteria for Successful Policies*, Directorate General for Economic and Financial Affairs, European Commission: Brussels

Lockwood, B. & Porcelli, F. (2013) "Incentive Schemes for Local Government: Theory and Evidence from Comprehensive Performance Assessment in England." *American Economic Journal: Economic Policy*, 5(3): 254-86.

Lotz, J. (2005) "Accountability and Control in the Financing of Local Government in Denmark," *OECD JOURNAL ON BUDGETING* Volume 5, No. 2

Lupton, R. and Fitzgerald A. (2015) *The Coalition's record on Area Regeneration and Neighbourhood Renewal 2010-2015*, LSE Research Note, London

Lyons Inquiry (2007) *Place-shaping: a shared ambition for the future of local government: Final Report*, London: The Stationery Office

McCluskey, WJ, Plimmer, FAS & Connellan, OP (2002) "Property Tax Banding: A Solution for Developing Countries," *Assessment Journal*, March/April . pp. 37-47

McLure, C. C. (1993) *Vertical Fiscal Imbalance and the Assignment of Taxing Powers in Australia*. Hoover Institution, Stanford University, Stanford

McMillan, M. & Dahlby, B. (2014) *Do Local Governments Need Alternative Sources of Tax Revenue? An Assessment of the Options for Alberta Cities*, University of Calgary School of Public Policy Research Papers

Maarten A. Allers, J. & Elhorst P. (2005) "Tax mimicking and yardstick competition among local governments in the Netherlands" *International Tax and Public Finance*, Volume 12, Issue 4 , pp 493-513 University of Groningen

- Mansour, N. & Winckler, V. (2015) *Devolved Taxes in Wales The Context*, Bevan Foundation: Cardiff
- Mansour, N. (2016) *Taxing tourism: would you pay to stay?* <http://www.bevanfoundation.org/commentary/taxing-tourism>, Retrieved 12/0216
- Martin, S. (2005) *The Implications of Local Devolution for Efficiency and Effectiveness in Service Delivery*, Lyons Commission: London
- Martin S. Downe J. Grace C. & Nutley S. (2010). "Validity, utilization and evidence-based policy: The development and impact of performance improvement regimes in local public services", *Evaluation*, 16(31):31-42.
- Martin, S. & Webb, A. (2009) Citizen-centred' public services: contestability without consumer-driven competition? *Public Money and Management*, 2009, Cardiff University.
- Midwinter, A. & Carmichel, P. (2002) "Central Grants and Local Spending in Britain: A Reappraisal of the Post-Layfield Period," *Local Government Studies*. 28, 3, 49,
- Midwinter, A & Mair, C. (1987) *Rates Reform: Issues, arguments and evidence*, Mainstream: Edinburgh
- Midwinter, A. & Monaghan, C. (1991) "THE NEW SYSTEM OF LOCAL TAXATION IN SCOTLAND: PRINCIPLES AND PRACTICE," *Public Administration*, Volume 69, Issue 3, pages 345–361, September 1991
- Midwinter, A. & Monaghan, C. (1993) *From Rates to the Poll Tax: Local Government Finance in the Thatcher Era*, Edinburgh University Press: Edinburgh
- Midwinter, A. (2001a) *The Development of the Grant System Since Devolution*, Memorandum of Evidence to the Inquiry into Local Government Finance, Local Government Committee of the Scottish Parliament, Agenda Item 2, 20 Nov. 2001
- Midwinter, A. (2001b) *Principles of Grant Distribution*, Memorandum of Evidence to the Inquiry into Local Government Finance, Local Government Committee of the Scottish Parliament, Agenda Item 2, 20 Nov. 2001
- Midwinter, A. & Carmichel, P. (2002) "Central Grants and Local Spending in Britain: A Reappraisal of the Post-Layfield Period," *Local Government Studies* 28, 3, 49,
- Midwinter, A, Mair, C, & Ford, C. (1986) "The politics of rate support grant distribution," *The Scottish Government Yearbook*, Unit for the Study of Government in Scotland, University of Edinburgh: Edinburgh

Morgan Review (2012) *Business Rates Wales Review: Incentivising Growth*, Report of the Business Rates Task and Finish Group, Welsh Government: Cardiff

Musgrave, A. (1983) "Who Should Tax, Where, and What?," in Charles E. McLure, Jr., editor, *Tax Assignment in Federal Countries* (Canberra: Centre for Research on Federal Financial Relations, 1983), pp. 2-19

Musgrave, R.A & Musgrave P.B. (1989) *Public Finance in Theory and Practice*, 5th edition, McGraw-Hill: Singapore

National Audit Office (2015) *Outcome-based payment schemes: government's use of payment by results*, Report by the Comptroller and Auditor General, NAO: London

Norregaard, J. (2013) *Taxing Immovable Property: Revenue Potential and Implementation Challenges*, IMF: New York

Northern Ireland Assembly (2007) *An International Comparison of Local Government Taxation*, Research Paper 10/07, Northern Ireland Assembly Research and Library Services: Belfast

Oates, W E. (1972) *Fiscal Federalism*. New York: Harcourt Brace Jovanovich

Oates, W. E., (1999) 'An Essay on Fiscal Federalism' *Journal of Economic Literature*, vol. 37, no. 3 (Sept. 1999)

ODPM (2004) *Report of the Balance of Funding Review*, Office of the Deputy Prime Minister, London

OECD (2013) *Measuring Fiscal Decentralisation: Concepts and Policies*, Paris: OECD

Office for Budgetary Responsibility (2015) *Economic and fiscal outlook: Devolved Taxes Forecast*, November 2015: London

Office for National Statistics (2011) *Rural/Urban Definition*, ONS: London

Office for National Statistics (2015) *2014-based National Population Projections*, ONS, London

Osborne, G. (2015) Speech to the Conservative Party Conference, 5 October 2015

Pateman. T, (2011) *Rural and urban areas: comparing lives using rural/urban classifications*, Office for National Statistics Regional Trends 2010/11, London

Persson, G (2012) *How to tame a budget crisis, contribution to Government Designed for New Times*, A Global Conversation, McKinsey & Company, London

Phillips, D, & Deaner, B. (2013) *Scenarios for the Welsh Government budget to 2025-26*, IFS Report R83, Institute for Fiscal Studies: London

- Porter, M. (2000) "Economic Development Quarterly Location, Competition, and Economic Development: Local Clusters in a Global Economy," *Economic Development Quarterly* February 2000 vol. 14 no. 1 15-34
- Plimmer, F., McCluskey, W. & Connellan, O. (2001) *Valuation Banding – An International Property Tax Solution?* Paper presented at the 8th European Real Estate Conference Society Conference in Alicante, Spain (27-29 June 2001)
- Ransom, G. (2014) *Comparison of tax reliefs, tourist taxes and VAT thresholds in Europe*, A study for the Cut Tourism VAT campaign: London
- Rose, A. (2003) *Results-orientated budget practice in OECD countries*, Overseas Development Institute: Working Paper 209: London
- Rosengard, J.K. (1998) *Property Tax Reform in Developing Countries*. Norwell, MA: Kluwer Academic Publishers
- Rosengard J.K. (2012) *The Tax Everyone Loves to Hate: Principles of Property Tax Reform*, M-RCBG Faculty Working Paper Series, Mossavar-Rahmani Center for Business & Government, Harvard Kennedy School
- Scott, A. & Pitt, J. (2015) *Local Government Funding: A Local Government Navigator Evidence Review*, Local Government Knowledge Navigator: London.
- Silk Commission (2012) *Empowerment and Responsibility: Legislative Powers to Strengthen Wales*, Part 1, Commission on Devolution in Wales: Cardiff
- Silk Commission (2014) *Empowerment and Responsibility: Legislative Powers to Strengthen Wales*, Final report, Commission on Devolution in Wales: Cardiff
- Shah, A. (2007) *Fiscal Need Equalisation: is it worth doing? Lessons from International Practices*, Working paper draft, World Bank
- Slack, E. & Bird R.M. (2014) *The Political Economy of Property Tax Reform*, OECD Working Papers on Fiscal Federalism No. 18, OECD: Paris
- Smith, A. & Heywood, P. (2000) *REGIONAL GOVERNMENT IN FRANCE & Spain*, Joseph Rowntree Foundation: York
- Smith Commission (2014) *Report of the Smith Commission for the further devolution of powers to the Scottish Parliament*, Edinburgh
- SPICE (2012) *The National Performance Framework and Scotland Performs*, Financial Scrutiny Unit Briefing, Scottish Parliament
- Swianiewicz, P. (2003) *Foundations of Fiscal Decentralization: Benchmarking Guide for Countries in Transition*. LGI, Budapest
- Tiebout, C. M. (1956) 'A Pure Theory of Local Expenditures,' *The Journal of Political Economy*, Vol. 64, No. 5. (Oct., 1956), pp. 416-424.

- Travers, T. (1986) *The politics of local government finance*, Allen & Unwin: London
- Travers, T. (2005) *International Comparisons of Local Government Finance: Propositions and Analysis*, London: London School of Economics and Political Science
- United Nations (2013) *Property Tax Regimes in Europe*, The Global Urban Economic Dialogue Series, Human Settlements Programme, UN-HABITAT: United Nations: New York
- Vermeir, J. & Heyndels, B. (2006) "Tax policy and yardstick voting in Flemish municipal elections" *Applied Economics*, 38 (19), pp.2285-2298
- Walker, D. (2002) *In Praise of centralism: A critique of the new localism*, The Catalyst Forum, London, 2002
- Webber, D. (2004) "Managing the Public's Money: From Outputs to Outcomes – and Beyond," *OECD JOURNAL On BUDGETING*, VOLUME 4, No. 2
- Welsh Assembly Government (2004) *Making the Connections: Delivering Better Public Services for Wales*, Cardiff
- Welsh Assembly Government (2006) *Making the Connections – Delivering Beyond Boundaries: Transforming Public Services in Wales*, Cardiff.
- Welsh Government (2014) *Welsh Index of Multiple Deprivation*, Office for National Statistics: Newport
- Welsh Government (2015a) *Draft Budget 2016 -2017*, Cardiff
- Welsh Government (2015b) *Statistics for Wales: Local Authority Revenue and Capital Outturn Expenditure 2014-15 SDR 158/2015*, Cardiff
- Welsh Government (2015c) *Devolution, Democracy and Delivery: Reforming Local Government: Power to Local People*, Cardiff
- Williams Commission (2014) *Commission on Public Service Governance and Delivery*, Cardiff
- World Bank (2010) *Results, Performance Budgeting and Trust in Government*, World Bank: Washington
- Yilmaz, S., Beris, Y. & Serrano-Berthet, R. (2008) *Local Government Discretion and Accountability: A Diagnostic Framework for Local Governance*, LOCAL GOVERNANCE & ACCOUNTABILITY SERIES, Paper No. 113 / July 2008, World Bank: Washington