

# **THE GREAT BRITISH TAXPAYER RIP-OFF**

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## About the authors

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## Summary: taxes up, charges up, services cut

Over the last decade British taxpayers have faced a huge increase in their tax bills, but at the same time they've been made to pay additional fees and charges for what used to be "free" public services. To cap it all, service levels have suffered widespread cuts.

### **It all adds up to the Great British Taxpayer Rip-Off.**

In the ten years to 2007-08, Britain's **annual tax bill** increased by 76 per cent. Even when adjusted for inflation (using the government's preferred CPI measure) the real increase was still a whopping 50 per cent.

In cash terms, that means taxpayers have been stung for an additional £223 billion per annum, equivalent to an extra £8,500 each year for each household. That's taken the annual tax bill well over £500 billion, or an extraordinary £20,700 every year for every single household in Britain.

Shamefully, a significant part of this increase has been in the form of **stealth taxation** – tax increases hidden away inside big headline grabbing packages – like the nasty attack on low wage earners buried in last year's "tax-cutting" budget. Or sly tax increases in the shape of fiscal drag – the failure to increase tax thresholds in line with earnings and asset prices – which under Labour has increased taxes by £14 billion per annum.

Meanwhile, **charges** have ratcheted up, and become much more widespread. Local authority fees and charges for everything from pest control to parking fines have *more than doubled* to well over £12 billion per annum (England only). NHS charges, including those now infamous hospital parking fees, have increased even more sharply, to over £3 billion per annum (England only).

Overall, we estimate the increase in NHS and local authority charges to taxpayers in England alone, since 1997-98, amounts to £10 billion per annum, equivalent to almost 3 pence on the standard rate of income tax.

Quangos are also charging ever more for documents like passports and driving licenses. We estimate that **the total cost of NHS, local authority and quango charges is now over £17 billion per annum, nearly £700 per household.**

These higher taxes and charges might be more acceptable if there had been a corresponding increase in service provision. But in reality **many services have been cut.**



Our vital local facilities have suffered a major programme of closures – hospitals, police stations, schools and post offices, have all been axed. And the quality of service has slumped too, whether it is the loss of GPs' evening and weekend surgeries, the replacement of real policemen by Community Support Officers, or the loss of our weekly bin collections.

Overall, taking account of both the increase in taxes and the increase in charges, the government is costing us over £230 billion per annum more than it did in 1997. Yet all key public services have suffered cuts in service levels. If anyone else perpetrated such a rip-off they'd be investigated by the Office of Fair Trading.

## 1. The increased tax burden

In the decade from 1997-98 to 2007-08 the total tax burden increased by £223 billion to £517 billion per annum. That's a 76 per cent rise.

Taxes have been rising much faster than the general price level. Over this period, the government's preferred measure of inflation, the Consumer Price Index (CPI), has registered a 17 per cent increase, which means that in real terms the tax burden has increased by 51 per cent. Figure 1 sets out the detail:

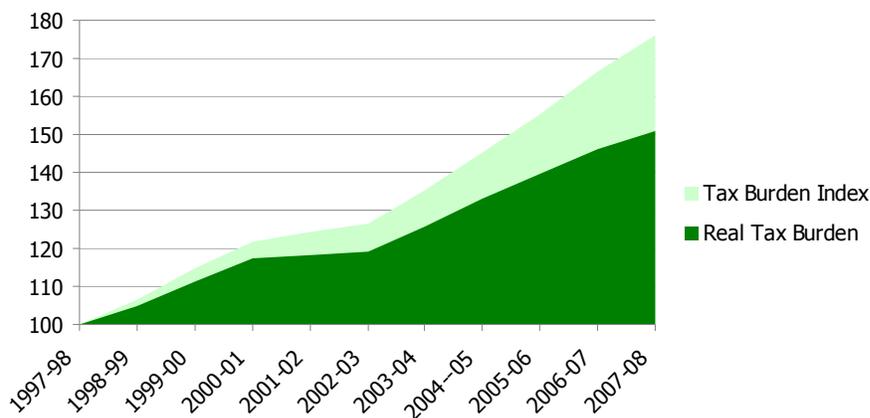
**Figure 1: Growth of the tax burden**

Year	Tax Burden, £billion	Tax Burden Index	Consumer Price Index	Real Tax Burden
1997-98	293.8	100	100	100
1998-99	313.3	107	102	105
1999-00	336.7	115	103	111
2000-01	357.4	122	104	117
2001-02	365.3	124	105	118
2002-03	372.1	127	106	119
2003-04	397.7	135	108	126
2004-05	426.5	145	109	133
2005-06	456.5	155	111	139
2006-07	488.8	166	114	146
2007-08	517.1	176	117	151

Sources: Office for National Statistics; 2007-08 tax burden from HM Treasury 2008 Budget

And, apart from a pause around the time of the 2001 election, taxes have grown rapidly throughout the decade, as shown in Figure 2:

**Figure 2: A decade of rapid tax growth**



Taxes per household have also grown sharply. In 1997-98, there were approximately 24 million households<sup>1</sup>, so taxes per household were about £12,200 per annum. By 2007-08, the number of households had increased to around 25 million, so taxes per household were £20,700, a rise of 70 per cent, or £8,500 per annum.

Of course, some taxes have increased much more than others. The following table shows those that have gone up most, ranked by their *percentage* increases. Together, they comprise about three quarters of the total tax burden.

**Figure 3: The biggest tax increases**

Tax	Cost in 2007-08, £billion	Increase since 1997-98, £billion	Increase since 1997-98, %
Total taxes	517.1	223.3	76
<i>Of which:</i>			
Stamp Duty	14.3	10.8	314
Air Passenger Duty	2.0	1.5	306
Capital Gains Tax	4.8	3.3	230
Inheritance Tax	3.9	2.2	132
Insurance Tax	2.4	1.3	120
National Insurance	97.4	49.6	104
Income tax	150.9	74.1	96
Council tax	23.7	10.6	80
VAT	80.5	29.6	60

Source: HM Treasury 2008 Budget, and HMRC

As can be seen, the “winner” is Stamp Duty, with a huge percentage cost increase of 314 per cent. This was one of the first taxes increased by Gordon Brown, and it has been further powered by the rise in house prices and Mr Brown’s failure to index thresholds (a classic stealth tax – see below).

Of the “big ticket” items, National Insurance has increased most, more than doubling, and again reflecting a combination of open tax increases and stealth taxation. But note also that income tax is not far behind, despite headline rate cuts.

### **Stealth taxes – fiscal drag**

To boost revenues, Mr Brown has used stealth taxation extensively. From his notorious £5 billion per annum raid on pension funds, to his abolition of the

<sup>1</sup> [ONS: Number of households](#)



10p income tax rate, he has sought to mask his tax increases by making them part of large, often complex packages.

But he has also relied heavily on "*fiscal drag*" – failing to increase tax thresholds and so dragging increasing numbers of people into paying higher rates of tax.

Cumulatively, we estimate that Gordon Brown boosted the Treasury coffers by about £80 billion through fiscal drag while he was Chancellor. In 2007-08 alone, fiscal drag contributed around £14 billion, or £550 per household.

Take **income tax** to start with. The tax-free personal allowance was £5,225 in 2007-08. But if it had increased in line with average earnings over the previous decade, it would have been £5,712. That would not only have saved a basic or higher rate taxpayer over £100, but would have meant that around half a million more people would not have to pay income tax at all.

Over 1.5 million more people are now paying income tax at 40 per cent than a decade ago. These are not rich businessmen, but ordinary taxpayers including teachers and police officers. That is because the top rate threshold has spectacularly failed to keep pace with earnings: if it had, it would now be getting on for £5,000 per annum higher than it actually is in 2007-08 (£44,395 instead of £39,825).

Fiscal drag on **stamp duty** has been even worse. The threshold for the 1 per cent rate of stamp duty has increased from £60,000 to £125,000 since 1996, but in 2007-08 it would have been £183,000 if it had kept pace with house price growth. The average first-time buyer now has to pay stamp duty, an imposition that few first time buyers would have faced a decade ago.

For more expensive properties, Gordon Brown increased rates of stamp duty from 1 per cent to 3 per cent for properties above £250,000 and to 4 per cent for properties above £500,000. Thresholds have not been increased at all. If they had tracked house price growth, only properties worth £717,250 or more would face the 3 per cent rate, while the 4 per cent rate would only affect houses worth at least £1,434,500. As it is, the average first-time buyer in London faces a stamp duty bill of at least £7,500.

The Government's failure to increase substantially the **Inheritance Tax** (IHT) threshold brought the unfair levy right up the political agenda in 2007. During his decade as Chancellor, Brown increased the threshold from £200,000 to £300,000. But, if it had increased in line with house prices, by 2007-08 it would have been at least £610,000.

Fiscal drag does not stop there. The threshold for the **small companies' rate of corporation tax** stayed at £300,000. If it had increased in line with



average earnings over the past decade it would have risen to over £450,000. Similarly if the individual threshold for **capital gains tax** had increased in line with earnings growth it would have increased to £9,557 instead of the actual level of £9,200.

## 2. Charges

It's not widely appreciated how much the public sector now charges for services that were once free, or virtually free, at the point of delivery.

Starting with **central government**, the charges levied by various quangos now raise considerable sums. For example, the Driver Vehicle Licensing Agency now takes £300 million per annum from the sale of driving licences, while its business in personalised number plates brings in another £100 million per annum.<sup>2</sup>

Passport charges are another good earner. In 1997 a passport cost £18, but by 2007 the cost had soared to £72, a *quadrupling* in price. These charges now cost us nearly £500 million per annum<sup>3</sup> and could increase further with plans for ID cards.

But the areas with the largest charge increases over the last decade are local authorities and the NHS.

### Local authorities

Over the years, councils have seen their traditional revenue raising powers greatly curtailed. Business rates are now under the control of Whitehall, and Whitehall also caps Council Tax increases.

So the councils have turned to charges, where they have managed to devise a whole raft of cunning techniques for extracting more cash from taxpayers. For example:

- **Congestion charges** – the London congestion charge was introduced in 2003, and now costs London drivers £210 million per annum.<sup>4</sup>
- **School meals** – the average price of a school meal is now £1.64<sup>5</sup>, an increase of about 50% over the last decade; with 3.25m meals served daily (England only), the annual cost is now in excess of £1bn.
- **Police** – charges for such things as policing public events have increased substantially; we estimate the total cost has risen by over 300% in a decade, to well over £500 million per annum; this has threatened the viability of many community events throughout Britain.<sup>6</sup>
- **Pest control**- most local authorities used to deal with household pests like rats, wasps, and fleas, free of charge; today, virtually all charge, with

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<sup>2</sup> [DVLA Annual Report 2006-07](#)

<sup>3</sup> [Identity and Passport Service fees](#)

<sup>4</sup> London Congestion Charge: London Mayor [Annual Report and Statement of Accounts 2006/07](#)

<sup>5</sup> Local Authority Caterers Association (LACA) survey, reported in the Times 21.4.08

<sup>6</sup> Such as [the Mumbles Raft Race](#), [the Starbeck Gala](#), [the Bilton Gala](#), [the Harrogate International Youth Music Festival parade](#), [Ripon's St Wilfrid's procession](#), and [the Knaresborough Bed Race](#)

rat infestations costing up to £80;<sup>7</sup> there are mounting concerns that public health is being put at risk as a result.

- **Library charges-** at one time library charges were minimal, and confined to late-return fines of a few pence; today libraries have moved into new revenue markets, like DVD rental and internet access, and late return fines can easily run into several pounds.
- **Parking charges and fines-** survey evidence<sup>8</sup> shows car parking charges have been rising by about 5 per cent per annum, significantly faster than inflation; but some charges have increased faster still, with rises being reported of over 40 per cent in a single year;<sup>9</sup> taking charges and fines together, English local councils hiked their overall take from £655 million in 1998-99 to £1,217 million in 2005-06, an increase of 86 per cent, or 9 per cent per annum.<sup>10</sup>

There are many other areas where charges have definitely increased, but we haven't been able to assemble national data. These include burial and cremation fees, social charges (e.g. home helps), planning fees and the growing number of communities footing the bill for police vehicles just so they can be patrolled.

Drawing it all together, we estimate that local authority fees and charges cost users about £12.6 billion in 2007-08, compared to only £5.5 billion a decade earlier. That's an increase of 130 per cent, massively outstripping the general rise in prices of only 17 per cent (CPI).

The detailed picture is set out in Figure 4, which shows that most charging areas have seen annual cost increases well into double figures. (The most recent published figures relate to 2005-06, so we have estimated the figures for 2007-08 assuming growth rates from the earlier years continued).

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<sup>7</sup> National Pest Technicians Association survey, reported in Daily Mail 4.4.08

<sup>8</sup> Direct Line Insurance survey 2007, reported in Sunday Times 24.2.08

<sup>9</sup> Eg Elmbridge Council, reported in Telegraph 25.4.08

<sup>10</sup> [DCLG- RO2 tables](#)

**Figure 4: Local Authority Charges and Fees (England)**

LA charge area	1997-98 £m	2005-06 £m	Annual growth rate %	2007-08 estimate £m
Education	1,164	2,039	7	2346
Transport, <i>of which:</i>	710	1,790	12	2256
Highways	68	219	16	293
Public transport	642	1,571	12	1965
Social Services	1,581	2,130	4	2295
Housing (excluding HRA)	111	584	23	884
Cultural, environmental and planning, <i>of which:</i>	1,112	2,324	10	2794
Cultural	263	829	15	1105
Environmental	435	821	8	962
Planning and development	414	674	6	761
Police	130	403	15	535
Fire	19	44	11	54
Courts	5	9	8	10
Central services	377	1,212	16	1623
Other	257	154	-6	135
<b>Total</b>	<b>5,466</b>	<b>10,690</b>	<b>9</b>	<b>12642</b>

Sources 1997-98 :OPDM: Local Government Finance Statistics England No.15

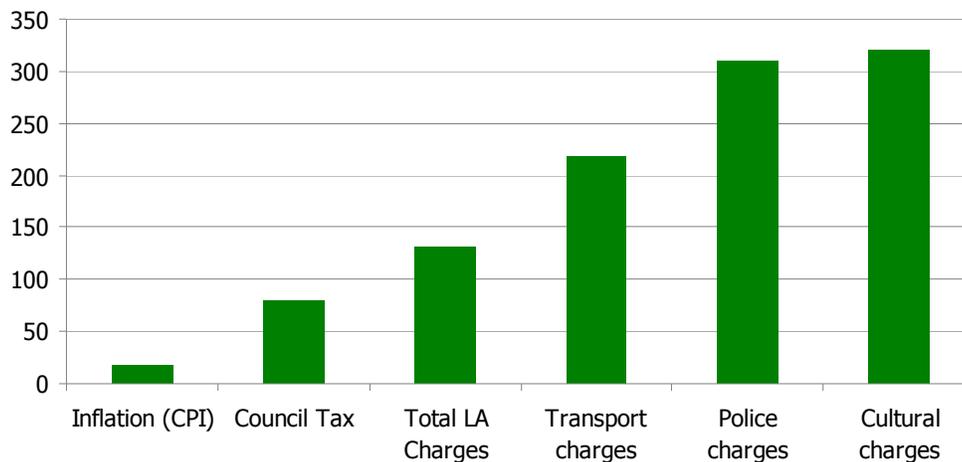
<http://www.local.communities.gov.uk/finance/stats/lgfs/lgfs15/chapter2.htm#e>;

2005-06: DCLG: Local Government Financial Statistics England No.17

<http://www.local.communities.gov.uk/finance/stats/lgfs/2007/h/chapter2.html#e>

This huge increase in local authority charges has far outstripped not only general inflation, but even the 80 per cent increase in Council Tax, as shown in Figure 5.

**Figure 5: A decade of soaring local authority costs**



### The National Health Service

Extraordinary though it may seem, given all the tax-funding pumped into it, the NHS has racked up charges even more than the local councils. Here are some examples:

- **Hospital car parks** – until 15 years ago most NHS hospitals provided free car parks, but over the last decade charges have escalated so that they now cost patients and hospital visitors *at least* £100 million per annum.<sup>11</sup>
- **Bedside telephones and TV** – under a deal with the NHS, the commercial Patientline payphone and TV service was introduced into NHS hospitals starting in 1995; it largely supplanted standard BT payphones and was backed by a blanket ban on the use of mobile phones in hospitals; today, despite an OFT investigation, the annual cost to patients is £43 million (2006-07).<sup>12</sup>
- **Road traffic accidents** - NHS charges for RTAs have been growing by 26 per cent per annum, quadrupling between 1999-00 and 2005-06 (England)<sup>13</sup>; we estimate annual charges are now running close to £200 million.

<sup>11</sup> England only: £97.8m in 2005-06: source: Public Expenditure on Health and Personal Social Services 2006, House of Commons Health Committee 2007 (note that many trusts failed to supply data, so the quoted total is certainly understated).

<sup>12</sup> Patientline Annual Report 2007

<sup>13</sup> Public Expenditure on Health and Personal Social Services 2006, House of Commons Health Committee 2007: England only

Overall we estimate the cost of NHS charges has increased by 186 per cent over the decade, to £3.7 billion.

**Figure 5: Cost of NHS charges (England)**

NHS charge area	1997-98 (£m)	2005-06 (£m)	Annual growth rate %	2007-08 estimate £m
Dental charges	388	410	1	416
Prescription charges	321	427	4	459
Road Traffic Accidents		122	26	194
Private Patients	273	365	4	392
Other	321	1696	23	2571
<b>Total</b>	<b>1303</b>	<b>3020</b>	<b>11</b>	<b>3726</b>

Source: Public Expenditure on Health and Personal Social Services 2006, House of Commons Health Committee 2007; RTA charges were not separately recorded before 1999-00, and the 26% pa growth rate relates to the period from then until 2005-06

A key point to note here is that traditional high profile political "fizzers", such as prescription charges, have seen much smaller increases than the newer stealth charges such as hospital parking. For example, the NHS prescription charge rose from £5.65 per item in 1997-98 to £6.85 in 2007-08, an annual increase of 1.9 per cent, roughly in line with general inflation.<sup>14</sup> But the cost of hospital parking has been increasing by about 10 per cent per annum.<sup>15</sup> It's clear that charging policy has been driven much more by political expediency than any desire to improve service delivery.

Another interesting point is that the 4 per cent per annum increase in the charge to private patients treated in NHS facilities is much lower than average charge increases. The likely explanation is that, while private patients are an attractive source of additional revenue, NHS pricing power is limited by competition from the private hospital sector - an instructive example of how customer exploitation by public sector monopolies can be kept in check by competition.

And we should not forget that NHS doctors also make various charges themselves, for duties deemed to be outside their core contract. These charges can be quite unexpected, such as the notorious "Ash Cash", which is levied for authorising dead bodies for cremation. Currently charged at £71 each for two doctors, Ash Cash costs grieving relatives an estimated £60 million per annum (there were 416,881 cremations in the UK in 2006).<sup>16</sup>

<sup>14</sup> Prescription Charges: Royal Pharmaceutical Society of Great Britain, May 2007

<sup>15</sup> Public Expenditure on Health and Personal Social Services 2006, House of Commons Health Committee, 2007

<sup>16</sup> [BBC R4 PM blog](#)



## **Total**

Combining the major quango charges discussed above with local authority and NHS charges we come to a total estimate of over £17 billion per annum, nearly £700 per household. The true total is probably even higher and increasing rapidly, a trend that can be seen in NHS and local authority charges which have increased by £10 billion since 1997-98 – equivalent to 3p on the basic rate of income tax.

### 3. Service cuts

Despite the increased tax and charges, public services have been cut and downgraded across the board, especially in terms of local delivery. Schools, hospitals, police stations, and post offices have all suffered massive closure programmes. Services have been truncated. Full-time qualified professionals have been replaced by cheaper substitutes.

Aggregate information is scarce because for obvious reasons, there is an official reluctance to compile the statistics. But the list of cuts is a long one:

#### NHS

- **Hospital and ward closures** – over the decade to 2007-08, approximately 30,000 hospital beds were lost in England, a decline of about 15 per cent;<sup>17</sup> moreover, provision has been increasingly concentrated in regional “factory hospitals”, with more convenient local facilities being closed; there is also disturbing evidence that individual closure decisions may have been guided by political calculation rather than clinical considerations.<sup>18</sup>
- **Loss of GPs out of hours service, including weekend and evening surgeries** – the infamous new contract for NHS GPs allowed them to contract out of their traditional out of hours service, and almost all of them did so.<sup>19</sup>
- **Replacement of full-time doctors by part-timers and nurses** - over the last decade the proportion of GPs who are part-timers has doubled to nearly 30 per cent;<sup>20</sup> the new grades of nurse practitioner and nurse consultant have been introduced as cheap replacements for qualified doctors.
- **Less availability of NHS dentistry** – although the Department of Health records a modest increase in the number of NHS dentists over the decade, in practice, fewer patients have been able to register for NHS treatment: in England the total fell from over 19m in 1997 to about 17m now.<sup>21</sup>

Because of these increasing gaps in NHS provision, according to the think-tank Reform, the average family now spends £1,200 a year on private

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<sup>17</sup> Department of Health: Hospital Activity Statistics

<sup>18</sup> Electoral “heat maps” have reportedly been used by Health ministers to identify politically disadvantageous closure decisions - Times 15.9.06

<sup>19</sup> National Audit Office: NHS Pay Modernisation: New Contracts for General Practice Services in England, 2008

<sup>20</sup> Department of Health- General and Personal Medical Services in England: 1995-2005

<sup>21</sup> ONS- Annual Abstract of Statistics, various

healthcare, *over and above* the £3,850 per annum it pays for the NHS via taxation.<sup>22</sup>

## Education

- **School closures** – in the decade to 2005-06, the number of state primary and secondary schools in the UK fell by over 1,500, about 5 per cent of the total.<sup>23</sup> Many more local schools are threatened with closure, especially in rural areas.<sup>24</sup>
- **Use of unqualified teachers** – so-called “teaching instructors”, with no recognised teaching qualification, are being widely used in difficult inner city schools; their numbers more than quadrupled between 1997 and 2006, reaching 6,800;<sup>25</sup> overall, the number of teachers employed without *Qualified Teacher Status* has now increased to 16,800, or 4 per cent of the total, compared to less than 1 per cent in 1997;<sup>26</sup> in addition there have been reports of sixth form pupils being paid to take lessons at £5 a time.<sup>27</sup>
- **Use of classroom assistants**- teaching at the chalk-face is increasingly in the hands of classroom assistants rather than qualified teachers: while the number of full-time qualified teachers is virtually unchanged since 1997, the number of classroom assistants in English local authority schools has nearly **trebled**, up from 61,000 to 176,000; as a result, they've gone from one for every **six** full-time qualified teachers, to one for every **two**.
- **Worsening provision for key subjects**- according the government's own enquiry, English secondary schools now have a severe shortage of specialist Maths teachers (3,000 - 4,000 short), and 30 per cent of Maths lessons are taught by non-specialists;<sup>28</sup> there is also a severe shortage of specialist science teachers, with a quarter of state secondary schools no longer having *any* specialist Physics teachers.<sup>29</sup>

There are other areas - such as after-school activities - where provision is believed to have been cut, but we have not been able to track down national data.

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<sup>22</sup> [Telegraph – 26.2.08](#)

<sup>23</sup> ONS- Annual Abstract of Statistics 2007

<sup>24</sup> [BBC News](#) 30.1.08

<sup>25</sup> [Telegraph 19.4.08](#)

<sup>26</sup> [DCSF: School Workforce in England Jan 2008](#)

<sup>27</sup> [Mail 28.4.08](#)

<sup>28</sup> [Making Maths Count, DFES 2004](#)

<sup>29</sup> [The importance of subject specialists in science teaching, CaSE 2006](#)

## Council services

- **Loss of weekly bin collection** – in 1997 virtually all councils provided a weekly bin collection; by 2007, 140 out of 350 English councils had cut the service to a fortnightly collection, with many more set to follow suit; 20 million people now only have their rubbish collected fortnightly, and once again, there are growing concerns about the public health implications.<sup>30</sup>
- **Less road maintenance** – there are many more potholes in roads as councils have cut maintenance standards; some have doubled the size of “actionable” potholes, and now only repair holes that are at least 4cms deep; there are growing safety concerns.<sup>31</sup>
- **Library closures** – in the ten years to 2005, there were 452 library closures (including mobile libraries), taking the total down to around 4,700.<sup>32</sup>
- **Closure of public conveniences** – in the seven years to 2005, councils closed nearly 20 per cent of the country’s public conveniences: we’re now down to about 5,000 (England and Wales), with a further 150 closing every year.<sup>33</sup>

## Police

- **Closure of police stations** – more than 600 have closed since 1997, and while there have been some new openings, the new ones are fewer, often smaller, and unmanned for long periods: only one police station in eight is now open 24 hours a day, and 18 out of 43 forces do not have a single station open around the clock<sup>34</sup>
- **Fewer police on the beat** – according to Home Office figures, at any one time, an average of only 1 in 58 police officers is out patrolling the streets: a mere 2,400 officers; the rest of those on duty are tied up on other matters, including the mountain of paperwork demanded by the Home Office<sup>35</sup>
- **Replacement of real police by PCSOs** – Police Community Support Officers were only introduced in 2002, but there are already 13,400, compared to 140,500 police officers<sup>36</sup>; with PCSOs costing only half the price of police constables, numbers are set to soar still further, with the recent Flanagan Report suggesting real police numbers will need to be

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<sup>30</sup> [Telegraph 2.5.08](#)

<sup>31</sup> [Sunday Times 30.3.08](#)

<sup>32</sup> [LISU Annual Library Statistics 2006](#)

<sup>33</sup> [Valuation Office Agency](#)

<sup>34</sup> [Telegraph 17.12.07](#)

<sup>35</sup> [Telegraph 17.3.07](#)

<sup>36</sup> Source: [Home Office](#) About the Police



cut; that's all despite growing public concern that PCSOs cannot handle the full range of police duties<sup>37</sup>

### **Post Offices**

- **Closures** – more than 4,000 Post Offices were closed over the last decade, leaving a network of 14,200; yet despite their importance to local communities, the government has announced plans to close a further 2,500.<sup>38</sup>
- **Withdrawal of cash services for pensioners** – the government has put the contract for benefits cash services (Post Office Card Account) out to tender; if as seems likely, the Post Office loses the contract, many more offices are set to close.

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<sup>37</sup> [Guardian 21.9.07](#)

<sup>38</sup> [Postwatch](#)



## Conclusions

Over the last ten years British taxpayers have suffered the Great British TaxPayer Rip-Off. There has been a £223 billion per annum increase in taxes based on both outright tax rises and a failure to increase thresholds in line with inflation. However, that isn't the end of the story. In the areas where increases in charges can be studied there has been another £10 billion increase, equivalent to 3p on the basic rate of income tax. This pushes the total increase in the cost of government up over £230 billion.

Despite those massive increases in the cost of government basic, front-line services are being cut across the board. Schools, hospitals, police stations, and post offices are being closed and full-time qualified professionals are being replaced by cheaper substitutes.

The ordinary British taxpayer has been tragically let down by politicians who have failed to deliver anything approaching good value for money. They deserve better.

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