

LYONS INQUIRY

into Local Government Funding

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Dear Stakeholder,

Lyons Inquiry into Local Government Funding: Remit Extended

I am writing to thank you for your input to my Inquiry into local government funding. My work to date has greatly benefited from the views, information and analysis provided by you and hundreds of others. I have been heartened by the quality and number of contributions from those who use or make decisions about local government services, who work in them, and who pay for them through local and national taxes, as well as from academics and analysts from a wide range of fields.

My work on local government funding has included not only consultation but also a wide range of analysis and commissioned research. This has progressed well, analysing a range of options for reform in detail, and is on schedule.

One of the strongest conclusions emerging from my work to date is that well-founded recommendations on possible reforms to the funding of local government need to be based on a clear understanding of the expectations and responsibilities of local government, which continue to change. As those who are familiar with Layfield Commission of 1976 will know, this debate has a long history which remains relevant after thirty years.

Furthermore, to be successful, the public must be able to understand any package of funding reforms in the context of what local government does. However, my research so far has revealed that the public have a weak understanding of what local government does and how it is funded. This is partly due to shared and confused responsibility for local services, and a funding system which is one of the most complex in the world. The complexity of the system and the problems it faces means there is no 'golden key' solution.

It is therefore my strong belief that reform of the funding system needs to be preceded by greater clarity about what local government does and who is responsible for local services, as well as who pays for them. Clarity about who makes decisions about services is more important than who raises the marginal pound to pay for them.

I have discussed these issues with ministers, and the Government has today announced that my remit is to be extended to cover questions relating to what local government does, as well as how it is funded.

My work on council tax reform and on the wider funding issues remains relevant and I will make recommendations for change in my final report in 2006. My work to date suggests that, while council tax has suffered from problems relating to its rate of increase and perceived unfairness (both between areas and different groups of people) it continues to have real benefits as a local tax and is not "broken".

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For that reason I believe revaluation of the property tax base will be important in order to retain the credibility of council tax over time, though I understand the Government's decision not to undertake revaluation at this time. Looking forward, it will also be important to consider the reform of council tax benefit, which may prove to be the most direct mechanism by which the fairness of council tax can be improved, and I will continue to examine the options over coming months.

I am pleased to take this opportunity to take a coherent look across the issues – which has the potential not only to improve services and public understanding, but also to improve the vitality of communities, and their ability to determine their own future.

I intend to produce my final report in late 2006 to feed in to the Comprehensive Spending Review of 2007, which provides an opportunity to address these issues in the context of wider potential reforms.

In autumn this year I will publish the research I have commissioned to date, along with a summary of the issues arising from evidence and submissions I have received on funding issues.

The wider remit will raise new challenges, and I have therefore decided to form a reference group, which will provide advice - and challenge - for me in taking the work forward from a broad range of perspectives.

I intend to work closely with local government as well as central government departments in delivering this remit, in particular in assessing how the Government's agenda for devolution and decentralisation is working so far and could help to improve local services. Local and central government share a common goal in finding a sensible long-term settlement which supports high quality local services which are responsive to local needs. I would strongly encourage local government representatives to think broadly and radically about the ways in which the role of local government can be clarified and made more effective and efficient and, where possible, to begin a debate with local people. Now is the time to be both creative and bold and I very much hope we can all rise to that challenge.

In considering the strategic role of local government in the context of national and local priorities for local services, I am keen to understand how the community leadership role of local authorities could be enhanced, as well as looking at the more specific issues around service provision. This means I will look carefully at the role of local government across the range of public services and initiatives in which it plays a role, rather than restricting my analysis to those services it currently provides directly.

I am also interested in improving and clarifying the relationship between central and local government to facilitate mature and effective dialogue. Furthermore, I will be looking at local governments' role in facilitating economic growth through their action on infrastructure and other issues related to the competitiveness of their local area.

In considering how changes could help to manage pressures on local services, I am particularly interested in the question of whether, and where, the devolution of responsibility to local government could help to tackle the current problems we face. For instance, could it help to improve accountability by clarifying who is responsible for local services? Under what circumstances could pressures be managed by allowing choices (including the choice to do less, as well as more) to be made at the local level? I will be looking to expand these and other questions and formally seek responses later this year.

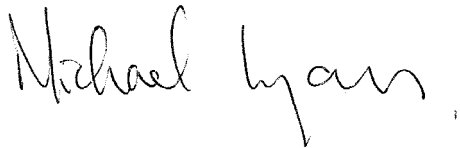
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In conclusion, I am convinced that the prospects for real and positive change will be much increased by a wide and public debate about the role of local government that informs a coherent analysis of both local government funding and function. I therefore welcome the wider remit, recognising the challenge and opportunities offered by this coming year's work.

The evidence I have received so far has been extremely useful, and will be reflected in my forthcoming publications and reports. I hope that you will remain engaged in these important issues, and that you will join me in stimulating public debate and interest and look forward to receiving your views.

Yours sincerely

A handwritten signature in black ink that reads "Michael Lyons". The signature is written in a cursive, slightly slanted style.

Sir Michael Lyons