

Speech:

We seem to have been 'waiting for Lyons' for an age. After all, Sir Michael was first asked to look into the council tax and other finance matters in July 2004, and that was following the Balance of Funding review, which was first set up in April 2003. So what is the reaction of local government to the Lyons Inquiry's final report?

Firstly, there is a lot in the final report which the LGA was calling for or already reflects issues which the LGA is pursuing. Sir Michael's emphasis on place shaping echoes the LGA's Closer to People and Places. Both place a stress on the real contribution that local authorities can make to changing peoples lives.

Sir Michael identifies the key challenges for local government as community cohesion, fostering economic prosperity, contributing towards a sustainable environment and addressing levels of trust and satisfaction. These are all areas where the LGA and local government have specific workstreams. We also welcome his endorsement of the work being carried out by the LGA and other partners on improvement. We look forward to publishing the report of the Best Commission at the end of this week.

His report is admirable for being clear and common sense and we can agree with a lot of his analysis. Local government is limited by excessive central control over our operations and those of our partners, by lack of flexibility to manage pressures, particularly by the ring-fenced Dedicated Schools Grant, and by confused accountability in the finance system. It does suffer from a confusing grant system and consequently, a lack of trust. Local government will welcome his call for less ring-fencing and for the government to abandon 'soft controls' over local government such as excessive guidance alongside the welcome reduction in formal targets.

It is also good that he has endorsed what the LGA says on subnational development, on the Barker, Eddington and Leitch reviews. For example, he agrees with the LGA that any new national planning commission should have a tightly drawn remit which ensures that it covers issues which are genuinely of national interest; that local authorities outside London should have powers to regulate bus operation; and that local authorities should play a full role in new skills arrangements. And in his endorsement of multi-area agreements as a way of developing sub-regional arrangements he is going along with the approach the LGA has set out in our paper 'Vive la dévolution' So there is a great deal of common ground between us.

But local authorities need a sustainable finance structure. In our submissions to Lyons, particularly in the submission we made in November 2006, we addressed many of these issues. We called for a New Conversation both at central and local level, covering pressures. This would contain:

- A redesigned central-local government relationship based on a 'single conversation' about all local public spending and how it is financed, including a mature debate on pressures:
- An Independent Public Finance Commission, devolving tasks from Government that are essentially administrative, such as providing a framework for setting fees and charges in a way that could deliver incentives for economic development that responded flexibly to local needs, and greatly strengthening the connection between the raising of business rates and the funding of local public services and economic development. Among its functions would be
- Enhanced models of local leadership and management of public finances based on the concept of a single local budget: these would provide the mechanisms necessary to deliver national outcomes with the best match to local needs and optimised value for money.

Sir Michael picks up important elements of this vision. He says that an independent and authoritative voice is needed to provide better information on funding to inform the public and Parliament about the impact of new burdens and the evidence of future pressures. This could build on the Audit Commission's existing role but other options would include an independent commission.

It is disappointing that the Government have immediately ruled out an independent commission. The Government press release mentions an 'Independent Grant Commission', which misrepresents what both Sir Michael and we were calling for because its function would have gone beyond grant. It would

have put an important impartial element into a number of features of the local government finance system, which currently get bogged down in national politics.

Take council tax. It was the problem of the small share of local government's income paid for by council tax which led to the setting up the Inquiry, along with the fact that valuations are based on an out of date tax base. Sir Michael is clear that council tax remains broadly sound and that revaluation is an important part of maintaining a credible and up to date taxbase. He also recommends two new bands; one on the top of the existing Band H and one beneath the existing Band A. And he recommends that Council Tax Benefit should be renamed Council Tax Rebate, the savings limits raised and the claiming procedure should be streamlined. It is disappointing that the government seem to have shelved all these changes until at least 2011. And the government says that reforms to benefit will have to be considered in the light of "practicality and affordability". Local government is also unhappy with the government's negative reaction to Sir Michael's strong and persuasive case for ending capping.

It therefore does not look at though we can expect changes on council tax any time soon. That must be a huge disappointment to many. Sir Michael concluded that the council tax wasn't broken but it does need reform. If important elements of reform are postponed the more the council tax will creak even more. The LGA recommended that the Independent Commission should be given the power to ensure that local taxbases should be kept up to date. This could be done on a rolling basis. This would take the sting out of revaluation and ensure that the council tax was based on up to date valuations.

Turning to other finance reforms, it is also disappointing that Sir Michael has ruled out relocalisation of the business rate and retention of the link to the retail price index, at least in the short term. The LGA in a submission showed how this could be done, with only around 70 authorities (including Westminster...) paying into a pool to ensure the grant system still compensated authorities for higher needs and lower resources. The LGA has shown that if business still paid for the same share of local government finance as it did in 1997/98, council tax could be £250 lower.

Sir Michael does recommend a supplementary business rate which would if levied at the 4p he recommends, bring the contribution that business rates makes to local finance in real terms back to 1990s levels. The government has announced that they will take this forward, although they have not yet mentioned a timescale. We welcome that and will participate in the debate over how it should be allocated. Business Improvement Districts have been a success (we have three in Westminster: covering areas such as Oxford Street, Regent Street, Leicester Square and the Paddington Basin). But their scope is necessarily narrow. The LGA looks forward to participating in discussions as to how the new Supplementary Business Rate could work, and how it could make a contribution to real strategic regeneration and infrastructure improvement.

We also look forward to participating in discussions of how local government can receive taxbase growth, in successor to the current LABGI scheme, which the government has promised will distribute £1bn over three years. We agree with Sir Michael that a successor to LABGI should be simpler and more transparent, whilst still giving local authorities a real share of any growth in taxbases and incentives to grow the taxbase.

Another recommendation of Sir Michael's that the Government is taking action on is the recommendation to reform reliefs and exemptions for empty properties, which it estimates, will give local government another £1bn from April 2008. But there will be no gain to local government if all the government does is reduce revenue support grant to compensate for these additional resources. Local Government needs to have those resources on top of existing grant, to meet the pressures, particularly on social care for adults and waste, to which we have pointed in our submission on the Spending Review.

On other taxes and charges; Sir Michael's discussion of a possible tourist tax is very measured. It should be a power not a duty and a local authority would have to show that there was robust evidence, that alternatives had been fully considered, that there was local support for the tax and that it had been developed in partnership with local businesses and residents. This is a series of 'locks' which ought to

convince the public and key stakeholders, including the tourist industry, that the proposal has been thought through and has genuine public support. So it is disappointing that the government have announced, again without any further examination, that they will not introduce a tourist tax.

Some of Sir Michael's ideas for the medium term are also ones that the LGA has promoted. For example, there could be an assigned share of income tax to local government. This would give local government in total a more buoyant taxbase and it would enable it to meet pressures. It would inevitably have to go side by side with a reduction in ring-fencing, including the ring-fenced Dedicated Schools Grant, giving authorities more leeway to meet children's services pressures and the Every Child Matters Agenda. And he says that future government should consider giving local authorities to set the business rate themselves, including the choice to set a lower rate.

The LGA welcomes this, as it welcomes the call for a new national agreement, which ensures that central government's expectations of local government are fully funded. But the question is how to get from here to there. Government, and all the main opposition political parties must be bolder in giving local government a future where it has more sources of local funding which it can deploy paying attention to the preferences of local people. The most disappointing aspect of this whole inquiry has not been the timidity of some of Sir Michael's recommendations but the speed with which the government has moved to shut down discussion of several of his key proposals on finance. It is a sign of a lack of confidence and self-belief within government that we can only hope will be rectified in due course. And the Opposition parties need to accept that a mature debate based on Sir Michael's recommendations is essential if we are to educate the public about the real costs of service provision and the options for how and whether to meet those costs. That is a necessary condition for the vision of place-making to become a reality and to rebuild trust and confidence in local governance.