

Sir Michael Lyons  
Lyons Inquiry into Local Government  
1 Horse Guards Road  
London  
SW1A 2HQ

13<sup>th</sup> March 2006

Dear Sir Michael Lyons

**City of York Council officer response to Lyons Inquiry consultation**

I welcome the opportunity to respond to the Lyons Inquiry consultation on the role and functions of local government. I hope that our comments will help you and enable you to influence the contents of the forthcoming local government White Paper that appears to be generating high expectations.

Regarding the role and function of local government, I would like any decision on this to take account of the recent State of the Cities report and the developing role of city regions. The report has clearly shown the dramatic improvement that the City of York has achieved despite receiving less than favourable treatment from national government.

As the question of the role of cities and city regions unfolds then we find ourselves asking how can we continue to 'punch above our weight' when we have high economic success, relatively low deprivation and a small population base. Our experience to date is that this combination of factors is neither rewarded or recognised in funding formulas or freedoms and flexibilities.

Regarding the specific issue of local government funding, please find attached comments on the problems City of York Council faces relating to council tax, and comments on council tax benefit and other tax and funding issues.

If there is any further information you require, please do not hesitate to contact Nigel Burchell, Senior Policy Development Officer, in the first instance. Nigel can be reached by phone on (01904) 552055, by email at [nigel.burchell@york.gov.uk](mailto:nigel.burchell@york.gov.uk) or by post at Policy Development Team, City of York Council, Guildhall, York YO1 9QN.

Yours sincerely

David Atkinson  
Chief Executive, City of York Council

## **Response to the Lyons Inquiry interim report – funding issues**

York awaits with interest the final recommendations of this Inquiry as the council suffers the consequences of the inequality and complexity of the current system in several areas.

Although we have had to levy above inflation increases in council tax for several years this is not due to profligate spending. The authority is classed as 'good' under the CPA assessment and yet achieves this with one of the lowest council taxes in the country (10<sup>th</sup> lowest 2005/06) and has the lowest spend per head and 19<sup>th</sup> lowest grant received per head (both 2005/06). The value for money assessment undertaken by the audit commission for the first time last year scored us as a 3 (good) which was one of the best results of the unitary councils. We are also well above target in achieving our efficiency gains under the governments efficiency agenda. In spite of this we have just gone through one of the most arduous budget setting processes in living memory and are continually battling to keep the momentum going into future budget rounds where, inevitably, there will be more cuts required to budgets to balance against the grant we receive and setting an acceptable level of council tax.

### **The problems with Council Tax**

The council is in agreement with your assessment of the complexity and public misunderstanding of the council tax system. The move to the four block model for the 2006/07 grant settlement has done nothing to alleviate this, in fact the opposite is true.

Above inflation council tax increases could be justified by the level of increase in the Assumed Notional Council Tax (ANCT) increase contained within the previous Formula Spending Share (FSS) model. This part of the formula removed from the calculated Revenue Support Grant an amount that was assumed to be what the local authority could be expected to raise in Council Tax. The increases in this figure were always above the rate of inflation and meant that councils would have to increase the council tax by this level just to retain the same level of funding. However, the actual level of council tax for York was always lower than this assumed level so the deduction from our grant was actually more than we could raise in tax. This vicious circle also prevented us from raising our council tax up to the assumed level due to the threat of capping.

The ANCT has now been removed from the new four block model and has been replaced by the 'relative resource amount'. As yet it is unclear how this has been calculated which only muddies the water further in this area.

One of the other problems there has been in this area is the one of transfer of responsibilities between areas of government which means the funding has also to move. Confusion and funding shortfalls have been created by moving funding from specific grants into the formula. Once an amount is moved into the formula it is subject to the variables that are specific to each council and inevitably the amount received through the formula has not always been the same as what was received through a specific grant. For York, as we have relatively low levels of

deprivation, the amount has nearly always been less and on occasion significantly less while other councils will have benefited.

### **Council Tax Benefit**

The council is in agreement with your comments about Council Tax Benefit and the need for reform to increase take up.

### **Other Taxation and Funding Issues**

#### Business Interests and Business Rates

The Council, along with many others would support the return of the business rates system to local control, the main reasons being equality and incentives. Local authorities have the power to influence and facilitate economic development in their areas and hence attract and retain business. Apart from the local impact of employment creation and bringing in inward investment there is no reward in terms of retaining business rates. Returning these to local control would provide a powerful incentive and remove one of the arbitrary 'damping' arrangements that pervade the current system. The business communities concerns about excessive business rate increases are not supported as market forces would dictate whether the rates are excessive. However, if this was still a concern, a system for regulating excessive increases could be introduced either by setting parameters or a strictly enforced upper limit.

It could be argued that the current Business Growth Incentive Scheme has improved this position and to some extent it has. However at present this is just a fixed term snapshot of business activity which provides a 'one-off' bonus if that particular local authority is on the upward curve of its economic cycle. It is not going to provide a long term, stable funding stream which would enable a long term business strategy to be developed. Short term fixes are not a long term realistic solution.

#### Tourist Related Taxes

The council is pleased to see that this issue is going to be explored further. We have been lobbying the ODPM for the formula to be amended to reflect the additional costs of being a tourist destination, this has not been resolved. There is a link here to the business rates argument as the council is not allowed to benefit from the local business rates generated by local businesses reliant on tourism. We await your proposals in this area.

#### Other taxes and charges

The council has an open mind about what reforms may be suggested but has a firm view that nothing should be done to complicate the system further or make it even more administratively burdensome. The list you provide in the interim report may have merits in their own right but do not appear to be large enough in scale to replace the current funding and we would be cautious about bringing in several tax based funding streams which could be expensive to administer and be difficult to collect.