

## **Lyons Inquiry – Consultation Paper and Interim Report**

### **1 Part 1 Local Government Role and Functions**

The proposed response to part 1 of the interim report is set at a strategic level, highlighting five key issues relating to the role of local government:

- a) Relationship of trust –national standards and local determination
- b) Focus on outcomes
- c) Responsibility with authority
- d) Provision of local services
- e) Public understanding and the democratic mandate

#### **Relationship of trust – national standards and local determination**

- 1.1 At the heart of this debate is the need to develop a relationship of trust between central and local government. The Council recognises the validity of the research which highlights the distinct nature of the UK model as seeking to ensure consistent standards of public services across the country. This has resulted in high levels of national prescription over targets and standards and leaves little flexibility to be responsive to local needs. The answer lies in acknowledging the need for running a dual agenda and being able to respond to adverse media attention about regional variations with a robust defence that while central and local government share a joint agenda of improving the quality of life for all, they value the rich diversity of localities and their different needs and aspirations.

#### **Focus on outcomes**

- 1.2 Local government has felt the burden of over-prescriptive direction from central government in recent years. The Council recognises the validity of implementing national initiatives at the local level but resists the micro-managed processes which accompany them. Where there is a national interest in common standards, central and local government should agree on WHAT needs to be achieved, leaving local government (or other local providers) to determine HOW. This will enable the greatest degree of choice and flexibility in local provision – which can be passed on to the end user.

#### **Responsibility with authority**

- 1.3 Local government is working increasingly in partnership with others. This is a valuable tool, minimising the need for constant restructuring – but one which needs careful management to be effective. When new initiatives are to be implemented through partnerships, accountabilities need to be clear. Local government is well placed to deliver the community leadership role but this role needs to be legitimised so that local government can be as effective as

possible. This means being given authority to act as ‘first among equals’ in order to secure improved outcomes for communities, rather than being left powerless with added responsibilities.

Local authorities are also asked to act as equal partners, so a one size fits all approach is inappropriate. The answer lies in ensuring there is clarity over governance issues and recognition of the democratic mandate that local government carries.

### **Provision of services**

- 1.4 Local government is both a provider of flexible, local public services and the democratic expression of the will of local people. The Council is strongly committed to a mixed economy of service provision, on the one hand regulating the market through internal supply and introducing fresh thinking from external providers on the other. The essential ingredient for successfully delivering services in this way is to promote a culture of continuous challenge to the status quo, constantly asking for evidence of value for money.

Local government has experienced extensive reduction in responsibility for services over the years. Any further reduction would fragment the ability to exert influence among partners and to exploit the synergies between services, which overall deliver improved outcomes tailored for the local community.

The Council recognises the challenge of inconsistent standards, the so-called ‘postcode lottery’, which at a national level can signify unacceptable performance. This would be better addressed by an agreement between central and local government on a core set of minimum standards for a small number of key services. As stated above, managing performance against these standards should be by reference to progress towards agreed outcomes.

### **Public understanding and the democratic mandate**

- 1.5 The interim report correctly identifies the public’s weak understanding of local government’s role and the way it is financed. Attempts to tackle this by explaining the complexities of the public sector are more likely to reinforce silos between the different elements of government and other public services, rather than change perceptions about value for money and the public’s inability to influence decisions.

Managing expectations may be better addressed by:

- promoting the role of councillors as the voice of local communities. Their democratic mandate is a critical element in ensuring their accountability to residents
- emphasising the role of socially responsible citizens as people who contribute to the overall health of their communities – regards of their personal expectations of receiving local public services.

## 2 **Part 2 Local Government funding**

### a) The positive attributes of council tax

Council tax as a property based tax undoubtedly exhibits the positive attributes identified in the report, despite the criticism to which it has been subject. Property taxes exist as a form of local taxation in most countries because of these attributes, and the County Council supports the retention of a reformed council tax as the basis for domestic local taxation in England.

### b) Council tax as a property tax

The County Council supports the view that there is a case for increasing the number of bands and amending the existing multipliers so that the tax payable is more proportionate to the capital value of the property.

### c) Council tax as a local service charge

The system of discounts and exemptions within the council tax were designed to retain some aspects of the community charge within the replacement council tax system and has been generally accepted as fair. The County Council supports the retention of the 25% single person discount and of the various exemptions within the current system.

### d) Council tax as a hybrid

Much of the criticism of the 'unfairness' of council tax is less because of the inherent features of a property tax than the context in which council tax has operated. Council tax has increased much faster than incomes since 1993/94 partly in the earlier years as a conscious objective of Government policy and latterly because of the effects of the increased ring-fencing of government grant and expectations of improved local services. Many who are entitled to council tax benefit have not taken it up and the limit on savings has meant that some pensioners in particular with low incomes have been ineligible. Greater acceptance of a continued role for a property based local tax is dependent on dealing with these two problems.

### e) Understanding the problems of council tax

The scale of annual increases is undoubtedly a problem and one that can only be solved by fair and transparent changes in government grant and by widening the local taxbase, so that council tax does not take all of the strain of an inadequate grant increase. The visibility of the tax can be perceived to be a problem, but also promotes accountability in a way that less visible taxes do not. The introduction of the new schools funding arrangements in 2006/07 though unwelcome in reducing the role that democratically elected local councils play in relation to the

funding of Education, does have a significant effect on the gearing ratio between council tax and formula grant. Overall the balance of funding changes from around 75:25 to around 50:50 but because the changes have been confined in 2006/07 to local education authorities, council tax is now contributing the majority of funding of the budget requirement for education authorities. Public confusion with the system of local government funding has been heightened by the introduction of the four-block presentation of formula grant this year. If the public are to understand what government grant and council tax are intended to pay for, a more transparent approach to the presentation of formula grant distribution needs to be re-introduced.

f) Council tax and ability to pay – council tax benefit

The conclusion on the impact of full take up of council tax benefit is an important one and suggests that a high priority needs to be given to improving the take up of council tax benefit, including examining ways in which the benefit system could be translated into a rebate, which does not require individuals to submit claims. Consideration should also be given to raising the savings limit for pensioners as the current system discourages individuals with relatively low retirement incomes from saving for their old age and seeking to maintain their independence. An alternative approach would be to introduce a flat rate council tax discount for all pensioners.

g) Revaluation

The County Council supports the view that after 15 years a revaluation is necessary to maintain the credibility of council tax.

h) Options for reforming council tax and ability to pay

The modelling carried out so far includes an examination of having regional rather than national band limits, but only as a means of adjusting for differentials between regions in the rate of increase in property values between 1991 and 2005. This suggests that for the South East region as a whole prices have increased at close to the national average. However this takes no account of the extent of house price differentials that existed in 1991 and it is suggested that the inquiry should seek to model the effect of introducing regional bands to reflect house price differentials, rather than simply movements in prices since 1991.

i) Local income tax

The County Council continues to support a property based local tax as the basis for domestic local taxation. Introduction of a supplementary income tax would unnecessarily complicate the system of local taxation, without necessarily being perceived as a fairer tax, as it would introduce new gainers and losers.

j) Business interests and business rates

The response of the business community is understandable and any decision to relocalise the business rate would need to be introduced in a way that resulted in some businesses paying lower rates than at present, and with safeguards to protect local business from excessive increases and to prevent local authorities increasing business rates at the expense of council tax. Nonetheless, the County Council believes that the relocalisation of the business rate represents the most effective means of widening the local taxbase and improving the links between local businesses and local authorities.

k) Land taxation

There are separate arguments for taxing the increase in the value of land created when planning permission is granted for development and a consultation is in progress on a planning gains supplement which it is proposed would be primarily used to provide funding for local authority investment in infrastructure. There do not seem to be any compelling arguments to justify the costs of change that would be associated with substituting a local land value tax for a property based tax.

l) Tourist related taxes / other taxes and charges

The County Council in its initial submission to the Lyons inquiry did not support the introduction of a range of new minor taxes or the assignment of national revenues as a preferred means of widening the local authority taxbase. The introduction of new taxes or charges relating to waste or transport should be judged on their beneficial impact on changing behaviour or providing earmarked funding for a related purpose rather than as a supplementary form of general local taxation.

m) User charges for services

Current statutory provisions limit the range of services for which charges can be levied, but there is potentially scope to charge more for some services particularly in relation to social care. However without a fundamental review of current legislation, reviewing charges is critical to managing new budget pressures or responding to expectations for increased choice, but is unlikely to have a fundamental impact on the balance of funding.

n) Equalisation

The extent of equalisation is heavily influenced by the issues raised in Part 1 of the report about the degree to which service levels are determined by national standards rather than local choice. Taxpayers in similar circumstances in different local authority areas will expect to pay a similar local tax to receive a nationally determined standard of

service. The County Council supports the principle of needs and resource equalisation but believes there are some fundamental flaws in the current arrangements that add complexity and instability to the local government funding system.

Additional recognition of unmet need associated with higher levels of deprivation, particularly for social care, has tended to be accommodated within relative needs factors by squeezing the basic amount within the formula without any underpinning evidence to support the reduced basic amounts. The extent to which specific grants targeted towards areas of deprivation have been allowed for in determining relative need to spend from general grant is also questionable. The process of resource equalisation has also been destabilised by the uplift given to relative needs factors both in 2003/04 and more recently in 2006/07 ostensibly to reflect actual levels of local authority spending in excess of the levels supported by Government. This was a major factor accounting for high council tax increases in 2003/04. A basic principle needs to be established that equalisation should be linked to spending levels that the Government is willing to support. It is reasonable to expect additional spending determined by the local authority in excess of the levels supported by Government to be financed from local taxation.