

**Corporate Resources
Directorate**

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Sir Michael Lyons
Lyons Inquiry into Local Government
Room 3/12
1 Horse Guards Road
London
SW1A 2HQ

date
12 May 2006

when responding please contact
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Direct line 01273 481406

our ref
SJN/vf/lyons

your ref

Dear Sir Michael,

Thank you for offering the opportunity to respond to and comment on the findings of your Inquiry's Interim Report, published on 15 December 2005.

The County Councils Network (CCN) has already submitted to your inquiry the results of two pieces of research commissioned in 2005. These were:

- "Options for Local Government Finance: An Economic Approach" by David King and Peter Watt.
- "Council Tax Banding Revaluation Research" by the Somerset Office.

They also previously made a submission in 2003 to the Steering Group of the Balance of Funding Review, commissioned by Nick Raynsford, and we understand that you have had access to submissions to the 2003 Review.

More recently I have also written to you in my capacity as Lead Financial Adviser to the CCN on the technical annex to your Interim Report and I would now like to take this opportunity to provide some further information for your consideration on behalf of the CCN.

Local Government Grant Funding Formula

You will be aware that the ODPM has introduced for 2006/07 a new funding formula for the distribution of Revenue Support Grant and National Non Domestic Rates (NNDR), called the Four Block Model. This has replaced the Formula Spending Share (FSS) system, which itself was only introduced in 2002/03.

Proposals for the introduction of the Four Block Model met with overwhelming opposition from local government, including the CCN. It has been severely criticised on the grounds of much increased complexity (compared to FSS), lack of transparency, and significant additional judgmental factors.



INVESTOR IN PEOPLE

The CCN have therefore asked me to send you a copy (attached) of our formal submission to the ODPM as part of the consultation process on the provisional financial settlements for 2006/2007 and 2007/2008 which gives further information on these issues surrounding the Four Block Model.

The CCN have also highlighted significant concerns regarding the sustainability of the new funding formula in the context of these two financial settlements, as evidenced by the number of authorities on the grant floor (18 out of 37 counties in 2006/07), and the severity of damping to pay for the floor (counties above the floor have 87% of their grant taken away).

Resource Equalisation

Further Resource Equalisation has been applied to the 2006/07 Settlement. This has resulted in a significant redistribution of grant away from counties further compounding the redistribution of grant when further Resource Equalisation was carried out to the system in 2003/04.

Whilst the CCN accepts there needs to be some form of Resource Equalisation, there is no generally agreed set of principles for carrying this out. In addition, with the ODPM's funding formula moving further away from measures of spend within the new Four Block Model, the methodology used by the ODPM to resource equalise in 2006/07 is inconsistent.

We have pleasure in attaching a principles paper produced by The Society of County Treasurers and CCN for consideration and would welcome further dialogue on the points raised on this matter.

Specific Spending Pressures Research

The CCN believes that the spending pressures facing local authorities, particularly in the areas of Adult Social Care and Waste Management represent significant concerns for the future of the current arrangements for local government financing. The CCN is currently undertaking further detailed work on future spending pressures in these areas which we hope to conclude in early summer 2006. We would of course be happy to share the results of this work with you.

The CCN is keen to continue to engage with the work of the inquiry and would be happy to discuss any aspect of this letter or the supporting papers with you and the Inquiry Team.

Yours sincerely,



Sean Nolan
Deputy Chief Executive and Director of Corporate Resources (ESCC) and
Lead Financial Advisor to the County Councils Network.

