

Sir Michael Lyons
Lyons Inquiry into Local Government Funding
Rooms 3/12
Eland House
1 Horse Guards Road
London SW1A 2HQ

Date 13/04/2005

Our Ref

Your Ref

Dear Sir Michael Lyons,

Cheshire County Council Response to the Lyons Local Government Funding Inquiry

Thank you for your letter (dated 14th March 2005) regarding the Lyons Local Government Funding Inquiry.

Cheshire County Council has a history of being heavily involved in the issue of reforming local government finance (we led the CCN national funding team in the mid '90's, represented counties on the SSA Working Groups and in more recent years contributed to the Fundamental Review of SSA's, the Balance of Funding Reveiw and continue to be involved in the F40 'campaign'). Therefore, we welcome the opportunity to record the main technical concerns we have with the current system of Local Government Finance.

Cheshire County Council has long-standing concerns with the national formula, specifically: -

- Area Cost Adjustment
- Inequities in Education funding (especially funding per pupil)
- Failure of formula to accurately reflect cost/needs of more rural areas versus urban areas
- The current approach to Resource Equalisation
- Subjective adjustments to Assumed National Council Tax (ANCT)
- Use of Data – up to date, urban bias etc

Cheshire County Council has raised concerns with Members, Schools, MPs and public etc but this involves considerable amount of officers time and resources (for central government as well), often divisive, and everyone remains disappointed with outcome.

While the FSS formula is responsible for such a large percentage of local authority accounting, it will rightly demand considerable scrutiny and challenge local authorities. It is our view that however much the formula is improved or modified it is inevitable that it will remain, at best, a rather crude means of allocating 75% of local authority funding.

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We feel therefore it is essential the balance of funding be shifted away from central government to local authorities thereby improving accountability by reducing the “gearing” effect. This is essential for local decision-making and for local authorities to remain relevant and accountable to the local electorate. It would be a more buoyant regime and would assist with our medium-term financial planning through more predictability and more local control. It is also a pragmatic approach to reduce the significance placed upon the FSS methodology in recognition that however complex the methodology is made in pursuit of ‘fairness’ it will always remain a relatively crude method for allocating central government funding.

Overall, the stance of Cheshire County Council is to support the LGA Combination Option consisting of: -

- a reformed and more equitable property tax;
- a relocalised business rate;
- the transfer of a portion of national income tax, either initially as an assigned revenue, developing into a local income tax, or moving directly to a local income tax;
- a basket of other smaller taxes and charges;
- a reduction in grant, whilst still equalising for needs and resources

Cheshire County Council agrees with the view that Council Tax should be retained and reformed as the principal means for raising income locally. Regular (5 yearly) valuations would be required – essential to promote both confidence in the system and the concept of fairness. Increasing the number of bands would also help however we remain unconvinced on the regional or sub-regional banding issue.

Raising more funding locally will require other sources of income to be developed. A Local Income Tax would be a more buoyant source of income – revenue can grow with the economy. Relocalisation of business rate is also an administratively straight forward way of increasing local government tax base; but we recognise the need to build-in safeguards to protect business. There is also a whole raft of other taxes and charges, which could be introduced; however these would have only a limited impact on the balance of funding. They could be useful in achieving local policy objectives but in general this is not an area of major concern for the County Council.

Yours sincerely



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