



COLCHESTER

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**Chief Executive's Office**

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Your ref

Our ref AP/JC

Date 19 January 2005

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

Dear Sir Michael

**Independent Inquiry into Local Government Funding**

I refer to my letter dated 6 December 2004 when I apologised for not being able to provide evidence to your inquiry in person but promised to give you my comments in writing.

Can I firstly say how much I welcome your Inquiry. Local government, local politicians and democracy itself has suffered under the current regime of funding. If we are to return local accountability to local politicians and engage local communities in the local decision making and democratic process then the funding of local government needs urgent revision.

In order to address the inadequacies of funding it undoubtedly needs a clearer understanding of the relationship between central and local government. Currently, central government expects many of its priorities to be met through local government but does not then allocate the appropriate resources to deliver those priorities or take into account whether or not those priorities are seen as such locally. I doubt many, if any local or central government officials understand the various component parts in determining the Revenue Support Grant and no-one can predict with any degree of accuracy the allocation of funding to specific local authorities. With some 75% of funding coming to local authorities centrally it is no wonder we tend to see short-term thinking, difficulty in giving certainty to our areas and communities on delivering local priorities over a medium term horizon and the need for central government to use a blunt instrument of capping to control local Council Tax rises which affect local people disproportionately.

There needs to be a clearer understanding of the roles and relationships between central and local government which should lead to a better determination of the balance of funding provided centrally or locally. At present the 75%:25% split does not feel right and we are all aware of the inequities of the gearing effect. It inevitably leads to annual finger pointing between local and central government over grant funding which is both unproductive and a big turn off for local people.

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Turning to your specific questions my comments are as follows: -

*How should Council Tax best be reformed?*

Maintaining a property tax as part of the mix of funding for councils is desirable due to its predictability and ease of collection. The key weakness however in its current format is in its lack of fairness to those on low or non-salary based incomes.

To reform council tax to address this I would like to see a combination of revising the higher level banding of properties and reforming council tax benefit. The reform of council tax benefit should include reviewing the savings limits element of the means tested element of benefit claims and investigating an entitlement based payment for pensioners. This latter initiative would address the large number of pensioners eligible to claim benefits who do not do so.

*What is the case for providing local authorities with increased flexibility to raise a larger proportion of their funding locally, or additional revenue?*

I have already indicated the grounds for local authorities to raise funds or revenue locally in my earlier paragraphs. However, the key points are:

- Delivering improvements which are identified locally as priorities;
- Clearer accountability of local politicians to their communities;
- Likely improvements in local election turnouts;
- Attracting a greater number and diversity of people to stand as local Councillors;
- Returning local government to local people;
- Longer term financial planning in local government;
- Better long-term planning for regenerating communities and the local area;

Having made these points it is acceptable that a certain level of central government grant will need to be maintained to ensure an evenness of distribution of resources across the country.

*What other sources – including local income tax, reformed non-domestic rates and other local taxes and charges – could be used to raise supplementary revenue for local authorities? How could they work and what would be their advantages and disadvantages? Would a particular combination of options work better than others?*

To address the issues raised above I would favour a combination of increased local funding through local income tax and reformed business rates whilst giving flexibility on other local taxes and charges to assist local policy objectives:

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A form of local income tax would provide a fairer means of funding than solely council tax and would have the advantage of growing with the economy without the need to increase the rate annually. The practicality of managing such a system would require specialist input that I am unable to give.

Re-localising business rates would appear an administratively easy and obvious step forward in reform of local government funding and in encouraging regeneration at a practical and local level. Safeguards would need to be built in to address business concerns over excessive rises although the current retail price index increases in business rates would need to be considered carefully given the recent switch in contribution from businesses relative to individuals.

Other local taxes and charges would be useful, not so much in correcting the balance of funding, but in assisting local policy objectives. Examples could include a local tourist tax to fund cultural services and utility charging to limit street works and reduce congestion.

The exact combination of these alternatives would require a more detailed analysis of financials than I am able to achieve with the information available to me but the local income tax and business rates elements would be the key planks in the reforms required.

*What are the implications for the financing of possible elected regional assemblies?*

One is bound to say that elected regional assemblies is now less likely following the recent North East referendum result than when your inquiry was set up. However, if they were to be set up it would depend on the role and functions.

Any system introduced will require the ability, as at present, to fund a number of local services and organisations - Fire, Police, Parish, etc and regional assemblies could be treated in the same way. Unfortunately, being regional they may not be seen as relevant locally and so to raise their funding locally could recreate all the difficulties facing local government now e.g. lack of accountability locally, disconnection between local priorities and regional assembly priorities. They could be funded wholly by central government but the danger in this is that funding streams come through them; they allocate funds to local government; and we are back in the same position as now with local government and lack of local connectivity. Any system of funding regional assemblies must avoid these pitfalls.

I hope that my comments are helpful in your deliberations and I look forward to reading your final report.

Yours sincerely

Adrian Pritchard  
**Chief Executive**