

CROYDON COUNCIL

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Lyons Inquiry into Local Government Funding
Room 3.12
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Your ref:
Our ref: DF/LG
Date: 21 January 2005

Dear Sir

Contribution to the Lyons Inquiry

In the press notice issued by the ODPM on 4 October, Sir Michael Lyons invited those with an interest to contribute their views on a number of issues to be considered by his Inquiry.

Croydon Council's Scrutiny and Overview Committee have agreed the following responses to each of the questions raised:

1. Pressing issues affecting the present system of local government funding

Schools passporting

The Council's freedom to determine its own priorities is restricted by the Government's school passporting requirements. Each year the increase in the Schools Formula Spending Share (SFSS) must be passed to schools irrespective of the overall cash increase in revenue support grant. Croydon has been required to passport a disproportionate share of its increase in Government funding to schools and this has reduced the resources available for the pressures faced by other services. In 2004/05, the increased amount passported to schools was 69% of the overall increase in revenue support grant. The schools' passporting requirement needs to be abolished if local authorities are to be able to determine their own local priorities and service demands. If passporting does continue, the Government should at least set separate grant floors for schools and non-schools services in order to protect the funding position for the latter.

Specific Grants

Substantial changes in specific grants from year to year can lead to major funding problems for individual services. It is essential to ensure that specific grants are distributed on a fair and consistent basis in order to enhance predictability in financial planning.



2001-2002
Town Centre Regeneration
Local Health Strategies

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2. Reform of Council Tax

Regional Banding

The revaluation of property in 2005 is likely to have a significant impact on Croydon council tax payers, as house prices in London have risen faster than elsewhere. The present national classification of council tax bands pays no regard to regional differences in property prices or the ability to pay. In order to avoid the inequalities of national banding, a system of regional council tax bands reflecting regional house prices should be introduced before the 2005 Revaluation takes effect.

Council Tax Benefits

A fair and effective system of Council Tax benefits is essential and any proposals to improve take-up and ability to pay issues would be welcome.

3. Case for Raising more Funds Locally

Gearing Ratio

Seventy per cent of Croydon's budget requirement is met from central government support (i.e. revenue support grant and share of business rates). This means that for every 1.0% grant reduction, the Council needs to raise Council Tax by 2.3%. The high "gearing" ratio effectively reduces the Council's freedom in setting its own spending levels. The balance of funding in favour of more locally raised revenues is therefore necessary in order to reduce the gearing impact.

4. Sources of Supplementary Revenue for Local Authorities

Local Income Tax

A local form of income tax would be more progressive and buoyant, provide an incentive for local authorities to promote economic development, and take into account the ability to pay issues. However the basis for setting local tax levels, implications for the regional economy, and administration required by different government agencies would need to be carefully considered before taking this option forward.

Further research into the feasibility of a local income tax is required. Regional implications should be modelled and the costs of implementation identified.

Business Rates

In 2003/04, the Council collected £82m business rates for payment into the national pool and received £97m back from the pool on a population basis. Thus, if business rates were to be re-localised, the Council would need to raise the rate poundage in order to maintain the current level of income (unless a London only equalisation scheme were to be re-introduced)

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In principle, the Council would support the return of local business rates subject to a sum being receivable from a London equalisation scheme (redistributing the rates collected by the City of London, Westminster and other London Boroughs with high rateable values) to compensate for the loss of the existing contribution from the national pool.

The current national business rate is increased in line with inflation each year. As a result of this inflation "cap", the share of local authority spending met by business has reduced from 29% in 1990/91 to 19% in 2004/05. If the present system of national business rates is to continue, the inflation cap on annual increases should cease.

Other Local Taxes and Charges

The Council would welcome more freedom in the ability to charge for local services. This would not resolve the fundamental Balance of Funding issue but would help to "top up" current resources. The present limitation of some charges to cost recovery should be removed. The freedom to charge a market rate for discretionary services (subject to any ability to pay issues) would help to reduce the current pressures on the Council Tax. In addition charges could be used to limit undesirable activities and assist the Council in achieving its priorities.

5. Financing of Possible Elected Regional Assemblies

The establishment of regional assemblies should provide the opportunity for services to be run more effectively and efficiently and be a key step forward in developing partnerships and collaborative working.

The setting-up costs for assemblies should be met by the Government - perhaps from the monies set aside to meet the implementation of potential efficiency savings identified in the Gershon report.

In the longer term, the assemblies would be financed by a combination of local authority resources and central government grant. The balance of funding would depend on the outcome of the Inquiry's review.

6. Priorities for Analysis within the Terms of Reference

Council Tax Capping

Councils that face a funding gap for services they have a statutory duty to provide may have no realistic alternative other than to increase the Council Tax. Capping such increases on the basis of national criteria ignores local cost pressures and takes no consideration of historic tax levels. Each local authority is better placed to gauge the views of its residents and decide whether an increase in Council Tax is acceptable.

For these reasons, early consideration should be given to the ending of the government's capping powers.

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Other Priorities

It is considered that the order for other priorities should be:

- Short term:
- Removing inflation cap from business rates;
 - Giving local authorities more freedom to set charges;
 - Consistent treatment of specific grants;
 - Reform of Council Tax and Benefits.
- Medium term:
- Consider re-localisation of business rates and equalisation arrangements.
- Longer term:
- Research into feasibility of a local income tax.

Yours faithfully



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