

25 January 2005
Your Ref:
Our Ref: RMF/Lyons Inq Local Govt/17Jan05
Enq to: Bob Mather
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Lyons Inquiry into Local Government Funding
Room 3.12
1 Horse Guards Road
LONDON
SW1A 2HQ

Dear Sir

LYONS INQUIRY: VIEWS OF CUMBRIA COUNTY COUNCIL

Thank you for the opportunity to comment on the current inquiry into local government funding. I am also aware that there are separate opportunities at regional events, including the meeting at Preston on 18 January 2005.

Many of the issues involved are similar to those raised in the Balance of Funding Review which reported on 20 July 2004. For information, I attach a copy of the County Council's response to that review.

In response to the specific questions raised in the Lyons Inquiry letter, the following points apply: -

Most pressing issues

- reconciling spending pressures, including Government Departments' priorities and 'passporting' expectations, with the impact on local taxation, when 'gearing' is so pronounced.
- equity of the council tax (scope for revaluation of properties, the existing band structure and the maximum 3:1 charging factor between highest and lowest bands)
- balance of funding between central and local taxes generally and between business rates and council tax in particular.
- scope for Revenue Support Grant formula changes to have a major impact on budget plans and council tax levels, as happened in 2003/4.

Reform of council tax: suggestions

- subject to the points below, council tax has been successful in terms of its certainty and collectability
- revaluation of properties as proposed for 2007
- increase in the number of bands, particularly within the existing Band A and existing Band H, accompanied by an increase in the 3:1 charging factor.

- opposition to the use of regional or sub-regional bandings, if this would mitigate the impact of property price rises since 1991, to the detriment of the North in favour of the South of England; this argues for the retention of a national scheme for resource equalisation (and needs equalisation).

Increased local flexibility / additional local revenue: benefits

- improved accountability, in terms of a closer link between local spending decisions and council tax levels (this process will be aided by the stability proposed through the introduction of 3 year Revenue and Capital Settlements).
- if it is accepted that an improved link between local spending decisions and local tax levels will improve accountability, then this should encourage local democracy, participation in Local Government and improved turnout in local elections (with the caveat that electoral trends for County Councils are difficult to discern, both the 1997 and 2001 County Council Elections coinciding with General Elections and perhaps the same occurring in 2005).

Other sources of local taxation

- the 'nationalisation' of business rates in 1990 served the purposes of providing greater certainty for businesses about their bills, but over time has led to a mismatch in the growth of business rate bills (linked to the Retail Prices Index) and council tax bills and has reduced the accountability links between local authorities and businesses.
- additional business rate discretions introduced by Government help at the margins, but the key issue is the scope to transfer business rates back to local authority control, within limits set by the Government (some form of capping regime, for business rates, council tax and other local taxes is seen as inevitable so that Government can intervene in case of excesses; of course, a higher proportion of tax raised locally should lead to improved local legitimacy of spending and tax decisions, as long as local authorities engage adequately with their communities).
- subject to the practical issues raised by CIPFA in their study of Local Income Tax, this offers another source of income but the County Council has not, so far, taken a view on this as a form of local taxation.
- there are references to other sources of income, such as local tourist taxes; there are mixed views about this, in an area which contains the Lake District and relies on tourist income, but the Cumbrian District Councils gave a pointer in 2004/5 by taking the option to reduce council tax discounts on second homes.
- the Local Government Association's 'combination option' offers a sound way forward.

Elected Regional Assemblies

- no comment in view of aftermath of North East votes.

Yours sincerely



R. F. Mather

Deputy Chief Executive/Corporate Director – Finance and Central Services

different groups of taxpayers. Local government might be given access to a range of national taxes to apply locally set marginal rates to supplement the council tax. These taxes should include the non-domestic rate.