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County Treasurer

LYONS INQUIRY INTO LOCAL GOVERNMENT FUNDING
Room 3/12
1 Horse Guards Road
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29th April 2005

Dear Sir Michael,

**LYONS INQUIRY
INDEPENDENT INQUIRY INTO LOCAL GOVERNMENT FUNDING**

Thank you for your letter regarding the above independent inquiry. I enjoyed your presentation to the Society of County Treasurers' in Warwick and the subsequent discussion.

Whilst the Authority fully supports the Association of North East Councils' submission I have set out below additional comments.

What are the most pressing issues affecting the present system of Local Government funding?

Whilst the gearing effect of Council Tax is an issue in terms of raising additional revenue at the margin, the main problem for an Authority like Durham is a fundamental lack of capacity in both its tax base and in its economy. Durham County is the most deprived of all the Shire Counties in England. Earnings of residents and in the business sector are generally lower than in the rest of England and this is reflected both in the North East in general, and Durham in particular, having the lowest tax base per head of all English Counties. This necessarily means that the scope to increase Council Tax / Local Income Tax is limited.

As I indicated in Warwick it is essential, in my view, that as Durham is a relatively deprived area, any proposal to change the tax system must be supported by a comprehensive system of resource equalisation in order to ensure that the relative needs of local authorities, regions and counties are addressed. An effective system of resource equalisation is imperative for the successful implementation of any revised system. I understand the point raised by my colleague from Dorset, which took a contrary view, but liked the point you made about the need for people to recognise wealth invested in residential property.

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Accountability has been put forward as one of the key issues for a change in the system. The public perception, borne out by focus group research from the Balance of Funding Review document (p.20) was that the public guessed they were funding 70-80% of Local Authority expenditure through the Council Tax. Whilst this perception is clearly wrong, it would appear that the public are making a clear link between Council Tax and Local Authority expenditure regardless of reality. This supports the view that there should be greater local accountability given that it is the locally elected Councils which are perceived to be responsible for the Council Tax bills.

The focus groups I meet in discussing council tax matters find it extremely difficult to understand the existing system of grant distribution and whose decisions (Local Government or Central Government) have the greatest impact on levels of council tax. Clarity, simplicity and accountability are clearly lacking in the current system.

Those council taxpayers on pensions find the increases in council tax difficult to manage. Some recognition of the impact of potentially significant tax increases on those on relatively low fixed incomes would seem to be appropriate, but would need to relate to other benefit regimes.

How might they be resolved, and what are the advantages and disadvantages of particular options.

The options have all been well aired over a number of years and the advantages (and disadvantages) are well recorded.

I am yet to be fully convinced by the combination option proposed by the LGA. At first sight it appears ambitious and complex. Further work would need to be done and evidence produced before I am convinced of the efficacy of this proposal.

Council Tax does however represent a steady source of income for the Authority and this coupled with the Grant Distribution system ensures that there is an element of fairness in the relative resources available to authorities.

Who would be affected and how? In particular:

How should council tax best be reformed

Short of any major reform of the overall tax regime, the case for Council Tax or a Property Tax is strong. I must say that the record of introducing new taxes has proved problematic in the past. The take-up of Council Tax Benefit must be improved or a system introduced to ensure that Council Tax does not bear too heavily on those who can ill afford to pay.

The range of bands should be increased with one at the lower end and a number above the current maximum. Revaluations ought to be undertaken frequently and regularly so they become less of a "surprise".

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

There is a theoretical case that would support improved transparency and accountability. The practical case for Durham County is not strong. As Durham with its poorer paid residents and associated lower tax base would have less potential for raising revenue, a comprehensive system of resource equalisation is therefore essential to avoid Durham being disadvantaged.

A mix of taxes whilst diversifying the tax base, will undoubtedly be more complex, potentially difficult to explain and likely to be more costly to manage.

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 would they work and what would be their advantages and disadvantages? Would a particular combination of options work better than others?

- I am not convinced that consideration of a wider source of income opportunities would yield significant gains for the Authority. This seems to be borne out by the Balance of Funding Review. In my opinion it would only serve to complicate the local government funding system without having any major impact on the level of funding available. It is difficult to imagine how local authorities would administer a system of Local Income Tax. A system of assigned Income Tax would, I believe, have little impact in terms of accountability.
- Bringing a reformed NNDR back within local funding is an option which we would favour as it would give greater flexibility and fairness in the raising of tax and reduce the impact of the “multiplier effect”.

Some of the taxes proposed (ie. Tourist taxes) would have disproportionate effects across the country. This could lead to imbalances and unfairness within the system.

What are the implications for the financing of possible elected regional assemblies.

Given the result of the recent referendum on regional assemblies in the North East no views are expressed on this issue.

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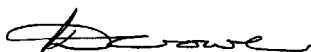
SUMMARY

In summary, I suggest:

- Whatever system is introduced, it is essential that full resource equalisation takes place that recognises the relative capacities of councils to raise revenue locally, and does not disadvantage those authorities with low tax raising ability. It is imperative that Central Government funding arrangements adequately reflect the needs of local authorities and areas to address economic and social deprivation and reduce regional disparities.
- Any system needs to “guarantee” the stream of income to local authorities, which is simple to operate and administrate.
- Whilst gearing is an issue and it is desirable for the effect to be lowered, the review must recognise the fundamental lack of capacity within the North East region for increasing the level of local revenue raised.
- Any system needs to be capable of being explained in simple terms to the taxpayers who can then acknowledge appropriate levels of equity and accountability.

I hope you find these comments helpful. My Council and I welcome the opportunity to contribute to this complex debate that has challenged local government finance experts for as long as I can remember. I look forward to reading your report in due course.

Yours sincerely



Stuart D Crowe
County Treasurer