

Submission to Lyons Inquiry

1. Introduction

- 1.1 Local authorities as elected bodies, consider the most important aspect of their funding to be local accountability. Local authorities need to be able to raise their funding locally, spend this according to local priorities and be judged on those decisions by their electorate. It is, of course, also important that funding is transparent, to both the electorate and local authorities, equitable between authorities and flexible to adapt to changing environments and priorities; economic, social and political.
- 1.2 Council Tax should provide a transparent link between spending and service provision, however it is distorted by the fact that the majority of local authority funding comes from central Government. Any increases in expenditure, either through decisions by local authorities, reduction in levels of grant received from Government, or additional duties imposed by Government result in a disproportionate increase in Council Tax, i.e. the 'gearing' effect.
- 1.3 Local authorities need a better balance between central grants and local income. This could be achieved by the following:
 - giving local authorities a new, wider, tax base that finances a fairer share of their existing spending locally, and reduction of central Government grants to reflect that;
 - increasing local authorities' capacity to generate their own revenue through Trading and Charging as appropriate.
- 1.4 We do not advocate the establishment of a Local Income Tax to replace Council Tax. Council Tax is easy to collect and has relatively high collection rates. It is transparent. Its existence widens the tax base. We would advocate local authorities being given greater discretion to set Council Tax benefits to alleviate pressures on vulnerable members of the community.
- 1.5 A Local Income Tax collected by central Government reduces accountability. It also reduces transparency compared to the status quo and the distributional effects of a Local Income Tax would further add to the burden on the group who face the greatest tax burden.
- 1.6 Hypothecating a fixed part of income tax would not give authorities any extra control over their revenue and it would not improve accountability.

2. Local funding for local services

- 2.1 Local authorities should fund services that they are directly accountable for delivering.
- 2.2 The proposal to fund schools directly through the Dedicated Schools Grant (DSG) could reduce the gearing effect for top tier local authorities. Rough calculations for Essex indicate that gearing would be approximately halved under this scenario, however, the full effect of this is not realised in cash terms as the tax base over which Council Tax is levied is the same.
- 2.3 There are services that have a distinct local focus and should be provided locally. Housing, regeneration, highways, libraries, heritage and culture services should remain as locally delivered services. Much of what social care departments do would also need to remain local.
- 2.4 Although centralising funding for services could improve the balance of funding, the preferred option would always be to increase local authorities control over their own income, mainly through devolution of Non Domestic Rates, discussed below.

3. Increasing the local authority tax base

- 3.1 **Devolving Non Domestic Rates (NDR) to local authorities.** NDR is already collected by local authorities and so this would not need expensive new systems to administer. This should be subject to a number of conditions including; a) sensible limits on how fast they could rise in the future, to protect business' interests as non-voting tax payers e.g. capping to local Council Tax rates and b) some form of equalisation or continuation of a central pot, to redistribute from authorities that currently raise an excess of NDR above their requirements.
- 3.2 The re-localisation of NDR would also encourage local authorities to promote economic development and regeneration in their areas.
- 3.3 The proposal to fund schools with a direct grant complicates this position and we would request investigation is carried out into how this could be resolved, as it is our preference that NDR is localised.
- 3.4 We also support **devolving Vehicle Excise Duty (VED)** to local authorities. VED raised £4.9bn in Government revenue in 2003/04. The effects of tax competition between local authorities would need to be assessed to limit the ability of taxpayers to manipulate the system (i.e. registering vehicles in areas outside their area of residence to exploit lower tax rates). This tax in its current form is regressive.

- 3.5 Options for making VED more progressive include reduced rates for disabled drivers or those on low incomes. Rates could also be varied to reflect local priorities on transport provision e.g. reduction for low mileage users to encourage use of public transport and variations according to the levels of environmental damage cause by vehicles. Further investigation would need to be carried out into how this would work in practice.
- 3.6 Creating a **menu of Local Taxes** would allow each local authority to set taxes from a list of possible alternatives that were in line with local priorities. These could be explicitly targeted to priority issues such as funding housing development (e.g. introducing a tax that pays for the connection of a new property to the highways network), congestion charging, road tolls and airport taxes. Local people should benefit from areas where significant development is proposed such as Stansted Airport and the Thames Gateway in Essex. By allowing local authorities discretion this would enable authorities to deliver key pledges to the community.
- 3.7 The disadvantages of this are that it may reduce transparency to have a number of local, specific taxes that would be complex to administer. There would also need to be a balance struck between the cost of setting up systems to introduce such taxes and the relative income they would produce. It could also introduce wide variations in levels of taxation across local authorities, the potential for which would need to be assessed. Our preference is for simplicity.

4. Resource Equalisation

- 4.1 There is a need for the continuation of resource equalisation, particularly if the options discussed above were introduced.
- 4.2 Currently, most authorities generate less NDR than is distributed back to them. A few local authorities generate very large surpluses of NDR and contribute to the pool.
- 4.3 If NDR were localised, a version of the pooling and redistribution carried out in the current system would need to continue. This could be run by Local Government, perhaps through the Local Government Association. It would give local authorities an opportunity to coordinate their views about a real collective financial issue and reduce the need for central control and involvement.

5. Reform of Council Tax

- 5.1 Council Tax in its current form has many advantages. It is relatively easy to collect and has high collection rates. It also is transparent and easily

understood by the electorate and therefore in terms of accountability, there is a strong case for its continuation, albeit in a revised form.

- 5.2 We accept there is likely to be a need for a wider range of bands for Council Tax, and we would request that any research carried out in this area is shared as soon as practicable with local authorities, to enable them to inform these discussions.
- 5.3 We would support investigation into regional housing bands, to take account of the relative differences in house prices across the country. It would allow houses of similar sizes or types across the country to pay similar amounts of Council Tax, regardless of properties having varying market values.
- 5.4 We would request the urgent review of the current benefits system and more discretion given to local authorities to implement benefits. Currently there is low take up of Council Tax benefit and the thresholds have not been updated since the tax was introduced in 1993.
- 5.5 Local authorities could be given the power to calculate benefit at source, for those who are known to local authorities as already receiving benefits, to improve take up rates.

6. Trading and Charging

- 6.1 Trading and the ability to charge for discretionary services is strongly supported as it allows authorities greater flexibility to respond to local demand and provide locally tailored services.
- 6.2 Whilst we welcome the additional powers that authorities have been given to generate income from Trading and Charging, much more work needs to be done with regard to the legislative barriers in other areas that prevent local authorities from fully utilising these powers. We would request further detailed investigation into these issues and relaxing/changing of legislation to allow local authorities to take full advantage of Trading and Charging opportunities and are happy to provide information on this at a later date based on work carried out by Essex County Council.

7. Three-year settlement proposals

- 7.1 We agree with the concept of three-year settlements and welcome the potential it provides for increased certainty and stability to underpin financial planning.
- 7.2 We are opposed to a mandatory requirement for authorities to publish a fixed three-year budget and council tax projections. While we value the

greater certainty that longer term financial planning might bring, it is imperative that authorities have the flexibility to respond to local priorities as they arise within the budget cycle. As such, we would also be strongly opposed to the introduction of any controls that would restrict the ability of the authority to alter its budget requirement and Council Tax projections as local circumstances change over the course of a three-year settlement period.

8. **Priorities for Analysis**, within the terms of reference of the Lyons Inquiry based on the above discussions would therefore be:
 - 8.1 **The implications of devolution of NDR and VED**. Particular regard would need to be paid to equalisation issues, and how this relates to the Dedicated Schools Grant.
 - 8.2 **Review of Council Tax benefits**, with emphasis on giving local authorities greater discretion and improving levels of take up.
 - 8.3 **Further investigation into Trading and Charging**, with particular emphasis on the legislative barriers that currently exist that restrict local authorities' ability to implement this.