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Handed in @

302105
4.11 event

no reply needed

14/2/05

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A.M

LYONS INQUIRY INTO LOCAL GOVERNMENT FUNDING

What are the most pressing issues affecting the present system of local government funding?

In our view the three most pressing issues are the gearing effect , the affordability of Council Tax and the impact of new legislative requirements set out by government (recycling etc.)

In particular for Hambleton:-

The gearing effect is magnified for an authority like Hambleton which levies a very low Council Tax .

Affordability is also an issue in a low waged / high house price district with a growing pensioner population.

The impact of increased responsibilities is exacerbated through the gearing effect requiring greater local funding to be raised from a tax base that is not buoyant.

How might these key issues be resolved?

The balance of funding review set out the options well. Resolving the gearing issue will immediately reduce the pressure on the other key issues through the provision of a wider taxbase with greater potential buoyancy.

The key therefore is to increase local funding.

In essence this comes down to either a re-localised business rate or a supplemental (not replacement) Local Income Tax (LIT) as other revenue streams will only make marginal differences.

Notwithstanding this , reform of Council Tax is still probably necessary to take out some of the regressive nature out of the tax. This could be achieved as early as 2007 , ideally dovetailing with the revaluation of properties.

Potentially earlier than this , perhaps from April 2006, Council Tax Benefit should be reformed to update some elements and improve take up.

How should Council Tax be best reformed?

Council Tax has been a success – after the huge impact on collection rates of the Community Charge - Council Tax collection rates have recovered quickly and continuously. However reform is possible to further improve its acceptability.

Council Tax should be reformed in two ways.

Firstly the number of bands and the weightings (multipliers) between the bands should be increased. Potentially splitting Band A and splitting Band H will assist and will increase the gap between the lowest and highest bills. (At present this is perceived to be too low) Without altering the multipliers this could potential increase the gap from 3X to 4X.

Some further adjustment of weightings within this structure could then be made if felt necessary.

The second reform would be to Council Tax Benefit.

Action on savings limits is imperative alongside a reduction in the tariff income for savings. Indeed the savings limits could be abandoned if the tariff income deals with savings income adequately. Tariff income should reflect the current low inflation low interest rate environment and indeed could even be set annually in a reformed system to be more sensitive to environment changes.

Action to increase take up on Council Tax particularly in the Pensioner group is also imperative. Whilst the current DWP work is noteworthy and producing results - more could potentially be done. At present Council's do not have access to a database of Pensioners – simply releasing this from the Pensions Service could achieve a great deal.

An alternative option would be to grant a mandatory Council Tax discount for pensioners – if this were set low enough it would mitigate the impact of paying discount to those who do not require it – yet it would allow the collecting authority to establish a relationship with pensioners directly. This could also mitigate the stigma currently related to benefit by associating any subsequent means testing with the discount.

We would not favour regional bandings as these exacerbate further inequalities within regions where 'hotspots' are more closely geographically related to 'coldspots' in the housing market. The impact of national bandings is to smooth these out. Once a step is taken down the line to regional bandings there will always be a local argument to segment still further to sub-regional or even county bandings.

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

The case is well made in the balance of funding review report and the select committee report. The key issue is what is the appropriate method.

LIT

CIPFA have made a strong case for a supplemental LIT but at present it seems to have too many drawbacks some of which may be resolved in time.

In the first instance it limits supplemental LIT to upper tier Councils only.

This raises a number of problems in two-tier area's where districts will inevitably feel the poor relations with limited funding capacity and still having a

gearing problem. This could lead to difficult political scenarios occurring and could lead to upper tier Councils manipulating the least visible form of tax for electoral advantage.

Clearly if the government move to a unitary structure of government in time this drawback would be removed and the simplicity of this approach is desirable.

Secondly the tax take will not be sensitive – for example an increase of ½ % in LIT could raise a significant amount of funding – indeed the smallest increase may raise much more than is required.

One of the main advantages of the property based tax is its single bill – issued to a household with clear tax levels and clear costs. I am not convinced that LIT will deliver this.

The main concerns with LIT therefore relate to visibility and clarity.

Localised Business Rates

If Business Rates are to be re-localised it is clear there would need to be some protection for businesses who claim that under the old rates they were hit hard and were unable to plan effectively for this.

A number of options seem possible :-

Linking rate increase to RPI but with a formula as used in the utility sector , for example , RPI+X . This could be a maximum with authorities able to levy less if desired.

Linking rate increase to Council Tax increase

A composite of the above options .

This approach may even allow longer term planning for business with for example an RPI+X set for 5 years followed by RPI+Y for the next 5 years.

Whilst inevitably businesses will not favour re-localisation it is desirable to recreate the link between the community which builds the infrastructure and business which has many calls on it. It will also re-ignite a relationship between Councils and business by making businesses clearer stakeholders.

Impact on funding of regional assemblies

The LIT will present this with difficulties by re-creating a second tier (see comments on LIT).