



Lyons Inquiry into Local Government  
Funding  
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Dear Sir

### Local Government Funding

At its meeting on 12 February 2005, the County Council's Cabinet considered the Inquiry's terms of reference and its request for views. The Cabinet has asked me to make the following response.

The County Council believes that the council tax should be retained but it should be reformed so that annual increases in the tax are generally more in line with inflation. This would help those on low and slowly rising incomes.

Local government should control a larger proportion of its income and be less dependent on Government grants. A major change to the balance of funding is necessary to give local authorities the capacity to deliver the services that local people and the Government require. This change can be achieved by:

- ◆ transferring business rates to local control, thereby improving the balance of funding to 50:50, subject to linking the increase in business rates to an appropriate index of cost increases for local government agreed with the Government. This will improve the 'gearing' ratio whereby a 1% increase in spending not covered by Government grant currently results in a 4% increase in council tax on average
- ◆ fine-tuning the council tax, by revising the top and bottom valuation bands and by increasing the number of bands to make it less regressive. However, the potential impact of the council tax revaluation from 2007/08 is a major concern for Hampshire if above-average increases in house prices in the South East allow the Government to transfer even more of its grant away from Hampshire. The introduction of regional valuation bands could help to moderate some of the effects



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County Treasurer  
**Jon Pittam BSc CPFA**

of the revaluation and make the banding more equitable between regions. It would allow houses of a similar size in the South East and the North, say, to be allocated to similar valuation bands in terms of the amount of council tax payable, even though South East properties have a higher market value.

- ◆ improving the council tax benefit system to give better protection to those on low and slowly rising incomes by raising thresholds, for example, on the level of savings allowed before entitlement to benefit is reduced
- ◆ reversing the 'resource equalisation' introduced in the revenue grant distribution system in 2003/04 or, at least, not making further resource equalisation adjustments in the future.

In addition, the Government should:

- ◆ not transfer the funding of any further services away from local government, such as schools, because their needs are best assessed locally and in view of the complexity of school funding. The Government's proposals to fund schools with a ring-fenced 'dedicated schools grant' from 2006/07 will not improve the gearing ratio in practice as a 1% increase in non-schools spending will still lead to the same cash increase in the council tax as now. The gearing ratio can only be improved by widening the local tax base, for example, by returning business rates to local control
- ◆ not introduce a local sales tax or a local income tax. An additional local tax affecting individuals, such as the local income tax, could complicate the calculation of local tax rates leading to a further reduction in transparency. A local income tax could also, as a direct tax, act as a disincentive to economic growth
- ◆ not introduce a range of minor taxes, such as on tourism, which are unlikely to raise significant income and would have a disproportionate effect on public perceptions of the extent of local taxation.

The final question raised by the Lyons Inquiry concerned how elected regional assemblies should be funded. The County Council opposes elected regional assemblies and believes that there is no need for a further tier of government. The functions proposed for regional assemblies should be carried out by upper tier local authorities, such as the County Council, and funded from the council tax and re-localised business rates.

I hope this response is helpful. Please let me know if you require any further explanation.

Yours faithfully



Jon Pittam

cc Local Government Association – Sarah Wood and Mike Heiser  
County Council's Network – John Sellgren  
Somerset County Treasurer's Department – Tim Richens