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LINCOLNSHIRE COUNTY COUNCIL

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LYONS INQUIRY INTO LOCAL GOVERNMENT FUNDING **Comments from Lincolnshire County Council**

The council would like to thank you for the opportunity to comment on the options for Local Government funding. It obviously welcomes the review of what has been acknowledged as a long standing problem. Hopefully an extensive and thorough review of all options will result in the implementation of a sustainable system that allows greater transparency and accountability of local spending decisions.

What are the most pressing issues affecting the present system?

The major problem with the current system is the 'gearing effect' and the resultant impact on council tax increases. The current ratio between central government funding and locally raised funding (on average 75:25) needs to be reversed. Also the high level of ring fenced grants and requirements to meet nationally determined targets causes problems for local authority accountability as authorities cannot respond to locally identified needs. Council taxpayers find it difficult to see any connection between the tax they pay and the spending decisions made by their local authority.

The decision made 15 years ago to nationalise business rates should be reviewed. It adversely affected the ratio between central government funding and locally raised funding. Also the capping of the annual increase to the increase in the RPI has, year on year, reduced the contribution that businesses make to local authority expenditure.

Local authorities are continually under pressure in terms of needing to increase spending, but at present they have only one option for raising additional income i.e. increasing the council tax. The public are finding the annual rises increasingly unacceptable, especially those on fixed or low incomes who cannot afford it. It is a regressive tax, with any annual rise being disproportionately felt by those on fixed or low incomes. The council tax benefit system put in place to assist such people is far too complex and puts many people off from applying. The system's criteria are also out of date and so many people fall just outside the benefit threshold. There is also, especially for old age pensioners, a stigma attached in applying for the benefit. The council tax benefit system needs to be reviewed.

The Local Government Association has done a considerable amount of work on this and has published a paper 'The Balance of Funding – Implementing the Combination Option'. Lincolnshire County Council supports the proposals put forward in the paper.

How should council tax best be reformed?

It is acknowledged by all that the council tax system whilst not perfect, does have many advantages, but there is a need for reform. Any review would need to address the range of bandings with a view to introducing more bands at both the top and bottom ends of the valuation range. The current system has

a Band A property at an eighth of the value of a Band H property but the Band A charge is one third of the Band H charge. The fact that it is regressive to property value needs to be addressed through reviewing the number and structure of bands. It is also regressive to income. An overhaul of the council tax benefit system should address this to some extent. The change to an entitlement rather than benefit system and increasing the savings limits would vastly improve take up and assist those on fixed and low incomes.

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

Having the increased flexibility would actually enable local authorities to address local issues and priorities, rather than directing the majority of their funding to nationally determined targets and ring fenced areas. There would be a much closer link between locally raised revenue and spending on local issues. Authorities would be more easily held accountable to the council tax payer and voter. There would be more local interest in local authorities' activities

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

There are numerous options put forward. Obviously the cost of introducing any new local tax or charge needs to be assessed to see if it would be prohibitive. That said, there is a real need to identify ways and means to strike a better balance between stability and buoyancy.

A major area of concern for Lincolnshire County Council would be how the non-domestic rates would be relocalised and if they were, how the government would equalise resources amongst local authorities. Lincolnshire is a predominantly rural county, without any large or concentrated areas of industry and business. All the Lincolnshire authorities would fare very badly if they had to rely solely on relocalised business rates for their business rates income. There would need to be additional government support via a redistribution system. This position would be exacerbated if any business rate or tax were based on property values alone. If relocalisation is not an option the very least that must change is the link between the annual increase being capped to the increase in RPI. This must be reviewed to address the fall in the proportion of local government funding generated from business rates to alleviate some of the pressure on the council tax. The LABGI scheme is a step in the right direction and will enable local authorities to generate additional revenue. However the extent to which additional funds can be generated will vary throughout the country as it will be dependent on how economically attractive an area is, as to whether businesses will locate there.

It would be helpful if local authorities had discretionary powers to levy one or more of a defined range of local taxes e.g. tourism tax.

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

No comment to make

What are the priorities for analysis within the terms of reference?

The priority for this Council would be to arrive at a means of increasing the proportion of local spending funded by locally raised income, bearing in mind the need to reduce specific grants and the impact of changes in school funding.