

Mr Darra Singh

01582 546015

DS/LP F1/1

**BY EMAIL**

Sir Michael Lyons

8 April 2005

Dear Sir Michael

**Lyons Inquiry into Local Government Funding**

Thank you for your letters of 18 October 2004 and 31 March 2005. The Council made a detailed response to the Balance of Funding Review, and that response expresses the views of Luton Borough Council. I do however appreciate the opportunity to give some further views addressing your specific terms of reference. My comments are made in the context of recent announcements on local authority funding and expectations from the media, many of the public, and the Government that Council Tax increases will need to be kept low. My comments are set out below.

1. The most pressing issue affecting the present system of local authority funding is the impact of the current system on authorities with low tax bases.
2. To illustrate with some specifics: Luton has an annual turnover of £400million, a net budget of £230million, and yet in 2005/6 a 1% increase in Council Tax only yields £0.5million. The problem with this is the pressure that results from cost increases in demand-driven services. Just 3 extra children requiring complex care in specialist facilities can result in a spend pressure equivalent to 1.5% on the Council Tax.
3. Local Government costs are rising by much more than the standard rate of inflation, a point that the Local Government Association has been making for some time. Some of the costs that are spiralling upwards are: pension costs, the costs of care (to all ages), homelessness, building repair, the costs of waste disposal and of reducing the amount of waste sent to landfill. The numbers requiring care continue to increase, which compounds the issues, and the landfill targets will create some huge additional costs in future years. While Government grant has increased in real terms by more than standard inflation rates in recent years, that increase has been expected to fund improvements in services.

4. Luton Borough Council has been making substantial savings in virtually every year since 1997, and yet if Council Tax increases are pegged at 5% per annum, additional savings of between £4m and £5m will be required each year to balance the budget. While the Council is committed to continue to find further efficiencies, this is likely to require fundamental reductions in services to the public. If this continues unchanged, authorities will be forced to reduce services to a level that could leave them open to court challenges that they are not fulfilling statutory requirements.
5. The demand for reductions in the level of Council Tax increases mean that this problem is even more significant than it was at the time of the balance of funding review. The ODPM consultation paper on 3 year grant settlements is written using the assumption that certainty of future grant will enable Councils to be certain about future levels of Council Tax increase, and that those increases will be low. This ignores the issue of unpredictable demand and high levels of cost increase described above. Therefore it is very important that the Review takes due account of these issues.
6. Council Tax could be reformed by a wider range of bands to make it less regressive, combined with revisions to the Council Tax benefit system, in particular to focus on the specific issues of those on fixed incomes.
7. If the proportion of income local authorities raise locally is increased, the pressures described in paragraphs 2 to 5 above may decrease proportionately, provided that authorities are really enabled to increase their income, and not capped at levels that do not allow for unavoidable cost increases. Alternatively, additional revenue funding would have to be distributed in a way that addressed both the underlying level of cost increase and variations in demand.
8. Other potential sources of funds for local authorities include local income tax (favoured by Luton Borough Council) and the relocalisation of non-domestic rates. The other options considered by the Balance of Funding Review could not deal with the issues. Small local taxes are very expensive to collect, and highly variable in their potential impact on authorities (e.g. tourist taxes).

I hope that this is useful. Should you require any further discussion of key issues, I shall be happy to participate.

Yours sincerely

*Darra Singh*

Darra Singh OBE  
Chief Executive