

Mid Yorkshire Chamber of Commerce and Industry Ltd (MYCCI)

Lyons Inquiry: Independent Inquiry into Local Government Funding

Q1a. What are the most pressing issues affecting the present system of local government funding?

The most pressing issue is a lack of accountability linked with the year on year increase in Council Tax well above the level of inflation. Every year, the same situation arises and every year the council taxpayers receive no definitive answer. Local authorities state that the rise is to make up the shortfall in funding given to them by central government to provide certain services to a required national standard. The Government says that each individual authority is given an allocation which is sufficient to deliver an average level of service. So where does that leave council taxpayers? When local authorities increase council tax they do not say that it is to provide a better than average service because they believe the tax payers wish it to be so.

Q1b. How might they be resolved?

Local authorities' finances are notoriously Byzantine in their complexities. Over years of annual local authority budget consultations, *MYCCI* has sought to obtain clear financial figures proving the claimed shortfall and believe that this should be required through statutory guidance. Relevant to this is the recommendation in paragraph 58 of the ODPM Housing, Planning, Local Government and the Regions Committee report on Local Government Revenue:- "We recommend that the ODPM publishes details of the continued cost pressures for each local authority service. We accept that much of the detail is likely to be technical, but summary information could spell out a national level what funding has increased by, what service-specific inflation was predicted to be, what assumption about efficiency improvements".

Coupled with the issue of shortfall in funding claimed by local authorities is the fact that due to the effect of gearing, each pound that a local authority claims is needed to be spent to make up the shortfall, costs the council tax payer is four pounds. *MYCCI* does not understand why the adverse effects of gearing cannot be ameliorated through the grants system, subject to safeguards to avoid misuse for unjustified expenditure. The conclusion in the report of the Steering Group for the Balance of Funding Review was that this was not practicable and should not be pursued, but this was not supported by any detailed reasoning.

In paragraph 40 of the ODPM: Housing, Planning, Local Government and the Regions Committee report the recommendation is made:- "The committee is convinced that gearing has a negative impact on local authorities by distorting accountability, magnifying any weaknesses in the formula grants system and making the entire system less clear". In its response to the report, Government accepted the validity of the Committee's statement.

In paragraph 50 of their report, the committee states:- "While economic stability is a legitimate goal, the relatively marginal effect of small changes in local authority expenditure within the context of the whole economy and negative aspects of gearing on local authorities, leads us to recommend that central government should have control only over the grant it needs to meet the goals outlined above". In its response, the Government said that it was one of the matters it had asked the Lyons Inquiry to consider further.

Local authorities have told *MYCCI* that, on their calculations, the Chancellor has annually over the last few years, passed around 6% of expenditure for services from central government to be 'picked' at local government level. Yet, no definitive statements have yet been forthcoming to clarify this. If gearing is inextricably linked to the balance of funding the quickest way to increase locally raised revenue would be to return to local authorities the power to levy and retain the proceeds of the business rate.

A growing feeling in the business community can be detected that, as business rates have to be paid in any case, it would be better for them to be spent under local control rather than go to a single pot to be redistributed at the discretion of central government. There would of course, have to be satisfactory safeguards including, most importantly, the obligation of the local authority to have proper and meaningful consultations with the local business community. The need for this is recognised by the Local Government Association. It is probably not feasible to have a system dependent on the agreement of the business sector, as for the Business Improvement Districts scheme. However, there should be a mechanism for dealing with serious disputes between the business community and its local council, such as referral to central government i.e. the ODPM.

Various controls have previously been mentioned, such as cap on the size of any increase above an established base and/or a link with the rate of increase for council tax. A major advantage of the current business rate is that it is uniform across the country coupled with the fact that any increase in the multiplier must relate to the increase in the rate of inflation. It is understandable how relevant this is to business, in the context of the year on year increases well above the level of inflation during the last decade. It must be remembered that a major reason for nationalising business rates was because the successive increases in some areas was driving businesses to re-locate from the very areas which most needed their continued presence and investment for wealth and job retention and creation.

A compromise could be that the proceeds of the business rates of a proportion thereof, collected under the present system of a national multiplier would be retained by the respective collecting local authorities. Central Government funding to each individual would have to be adjusted to allow for equalisation across the country, i.e. the rateable value base varies considerably across the country. This was previously the case when local authorities last were in complete charge of business rates.

Q2 How should council tax be reformed?

Council tax is regressive and it is therefore appropriate and desirable that it should be reformed. Options include increasing the number of bands both at the top and at the bottom ends together with adjustments in the ratios between them to offset the current regressive nature of council tax.

Some form of property tax has been a feature for centuries and operates in one form or another in many other countries in the context of local government. The particular attention now being given to council tax is due to growing concern about its year on year increases well above the rate of inflation, while at the same time, no discernible improvements to services is perceived by council tax payers. If, in fact, this is at least in part due to council tax having to be used to make up a shortfall in funding from central government to provide certain services to a national standard e.g. social services, then it is manifestly unjust. The burden is falling on only a proportion of the electorate and the remainder have no reason to be concerned even, if council tax was going 'through the roof' (for example two adjoining houses, one occupied by a couple on a pension and the other by four wage earners). The same disparity was shown when some local authorities were perceived to 'clobber' business through the non-domestic rates which left the non rate paying members of the electorate unmoved and out of contention.

Q3. What is the case for providing local authorities with increased flexibility to raise a larger proportion of their funding locally, or additional revenue?

This is related to accountability and gearing to which reference has been made in the responses to Q1a and Q1b above. This is on the basis of local authorities still being required to provide certain services to a national standard, but they will have less opportunity to blame Central government for a shortfall or, alternatively, will have to be much more transparent and convincing in justifying the circumstances of the shortfall and that it is not due to other causes such as lack of efficiency and cost effectiveness on the part of the local authority.

Q4b. What other sources – including local income tax, re-formed non-domestic rates and other local taxes and charges – could be used to raise supplementary revenue?

This implies that the council tax will be retained. It is noted that the Conclusion of the Balance of Funding Review that any further work examining the pros and cons of a local income tax should only proceed on the basis that it is a supplement to, not a replacement for council tax. Furthermore, simply replacing the council tax with local income tax would not in itself shift the balance of funding. This of course also applies to other sources of revenue.

It is also noted that the ODPM: Housing, Planning, Local Government and the Regions Committee in its report on Local Government Revenue did not rule out the possibility of a local income tax, but envisaged it as supplementing council tax. A particular attraction of a local income tax is that it would apply to members of the electorate in a district who currently either directly or indirectly benefit from services, the cost of which they have not contributed to through payment of council tax.

As the Committee has pointed out, a great deal of research will need to be carried out ahead of any attempt to reach conclusions. Obviously, it will be necessary to avoid the failure to think things through properly before the introduction of the community charge. Its concept took in the issue of rates being based entirely on ownership or tenancy of property and not on wage earnings and also that rates was the one major tax not linked to the ability to pay. Principles were sidetracked and lost sight of in the uproar about the community charge with the opposition from the people, who had not previously had to pay rates.

It is noted that the Balance of Funding Review came to the conclusion that none of the proposals under 'Other Options' could achieve a significant shift in the balance of funding. It is noted that the ODPM: Housing, Planning, Local Government and the Regions in their report on Local Government Revenue acknowledged that they would not raise enough revenue to replace existing council tax and should be seen as nothing more than a supplement. However, there could be some merit in local authorities having the opportunity to raise a 'basket' of local taxes. The proceeds should be used for specific projects to meet local needs as distinct from making up a shortfall on mainstream services as discussed above. The council would be required to make a convincing case and there could be the opportunity for a referendum before the actual introduction of any revenue raising measure.

Q5. What are the implications for the financing of possible elected regional assemblies?

Following the emphatic No vote in the North East region referendum, the available information appears to indicate that the Government has placed the concept of regional elected assemblies very much on the 'back burner'. In any case the contribution at local level was to come from a precept in the same way as currently for the police and fire services. The Government has stated that, irrespective of regional assemblies coming about, it would be strengthening the existing regional

chambers (some have taken the title to themselves of assemblies e.g. Yorkshire and Humber Assembly). Whilst the government has provided funding for certain functions such as the preparation of the Regional Spatial Strategy, the running costs are funded from the budgets of the constituent local authorities. The issue of setting up these chambers to be paid for by council tax payers was never put to the electorate, in spite of the fact that there was no statutory requirement for a regional chamber and no obvious or tangible benefit to council tax payers. In the case of the Yorkshire and Humber Assembly two of its local authority members have already withdrawn their subscription and others are actively reviewing their situation.

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