

## Inquiry by Sir Michael Lyons

### Introduction

The Norfolk Police Authority is grateful for the opportunity to comment on this important issue. Police Authorities should be allowed greater autonomy in decision making, service provision, and the raising of funds to finance their expenditure.

A combination of under funding by the Government, unjustifiable gearing and blurred accountability has, in recent years, resulted in untenable Council Tax rises, notwithstanding public support for policing. We have now experienced considerable, quite justifiable, concern from Council Tax Payers who are very vocal with their criticism of Tax rises. Yet the Authority needs to provide essential policing services in the absence of adequate central funding.

With the considerable constraint now exercised by the government on Council Tax increases, the Authority does not have the flexibility previously available on the level of Council Tax. The consequence is inevitable. Decisions now have to be taken by the Constabulary to reprioritise and even defer important policing services. The loser in this equation will be the community in Norfolk who deserve a policing service, which the current funding regime could now be denying.

A workable solution, which is seen to be fair by Council Tax Payers, the Constabulary, the Authority and all other parties involved, must be urgently identified.

Norfolk Police Authority submitted its views to the Balance of Funding Review in September 2003. The points made still stand and are even more relevant with continued under funding by the government. The submission is attached to this note.

### The questions:

**What are the most pressing issues affecting the present system of local government funding? How might they be resolved, and what are the advantages and disadvantages of particular options? Who would be affected and how?**

### Overall Funding

The need for sufficient funding to enable the Authority and the Constabulary deliver the governments agenda and Norfolk's policing requirement is paramount. The government for 2005-2006 has provided more funding nationally. However, this still falls short of need as demonstrated by the Association of Police Authorities and the impact is dependent on the distributional methodology. Additionally, the government continue to impose new demands without recognising the funding consequences. With Council Tax revenues now constrained, the need for a buoyant, local determined source of revenue for policing is paramount.

*- gearing  
causing considerable  
protest  
- public  
mood.  
- deferring policing services*

## Gearing

The gearing effect creates extreme pressure on Council Tax to provide the funding required in order to balance the budget. On average, for every additional 1% of spend required, Norfolk's Council Tax must be increased by 3%. It is difficult for the Council Tax payer to understand that large increases in Council Tax are triggered by rather lower (in percentage terms) increases in budget requirement.

Over the last 5 years, the Government has increased the total Formula Spending Share, but has not given an equivalent increase in the total grant. Therefore, the yield required from council tax has significantly increased and so has the reliance placed upon it.

Gearing has a pernicious effect, which is particularly distorting in the case of single service Police Authorities. This is combined with a lack of public understanding of the relationship between Council Tax percentage increases and actual Council Tax cost.

Through gearing, small essential increases in policing expenditure have to be measured against the unacceptable consequences of a Council Tax increase. The latter acts as a constraint, which can and does impede the need for funding to provide essential policing needs.

The reforms introduced with the introduction of Formula Spending Shares (FSS) in April 2003 failed to provide a solution to the fundamental flaws of the current system.

*No accountability transparency*

Gearing is not an appropriate tool to control Police Authority spending. It only serves to reduce the accountability between a Police Authority and local taxpayers, confuses and most importantly can result in important and necessary policing needs being deferred. This cannot continue.

There is a fundamental contradiction. The government has assumed through the gearing effect, that raising a higher proportion of funding by Council Tax, would increase local accountability. However, this has resulted in unsustainably high (in percentage terms) increases in Council Tax. The gearing effect must be addressed.

Council Tax increases well above inflation have arisen because of gearing and the widening gulf between government funding and the funding needed by local forces.

In 2004-2005 Council Tax rises in Police Authorities averaged 11.7%. The proportion of Police budgets met by Council Tax has nearly doubled from 12.2% in 1995/6 to 23.8% in 2004-2005. In Norfolk this is now 30%.

## Return of Business Rate (NNDR) to local control

The contribution from Business Rates nationally has decreased in real terms from 31.4% in 1991-1992 to 21.6% in 2003-2004.

Norfolk Police Authority regards it as essential that the setting of Business Rates is returned to local control, and/or at the very least, the pegging of Business Rates to GDP is ended. Business Rate increases should reflect the inflationary pressures facing Police Authorities which are considerably more than the GDR.

*NNDR needs considerable reform*

*end of tying to GDP*

## Other Principles

There are a number of key principles which should be "corner stones" of a new approach to Police Funding. These are considerably lacking in the current system.

- **Transparency** - Confusion is caused by funding Police Authorities partly through Home Office Specific Grant, partly through Revenue Support Grant, and the redistribution of Business Rates. According to the Home Office, in 1998/99 total police spending (revenue and capital) was £7.8 billion. The estimated outturn for 2003/04 was £10.3 billion, a gross percentage increase of 32%. However, the level of spending supported by Home Office grant stayed relatively stable - £4.27 billion in 1998/99 up to £4.68 billion in 2003/04, a percentage increase of just 9.6%. In Norfolk the proportion of police spending funded from Council Tax has risen from 16% in 1995/6 to 32% in 2004/5. Explaining to Council Tax payers the relationship between these funding sources and their contribution to overall funding is an almost impossible task.
- **Stability & Predictability** - these are essential to forward planning and despite continual promises from the government have yet to be achieved. Staffing costs are a large demand on Police budgets, but for 2005-2006 using this as the most recent example, we now have much uncertainty on whether the level of the grant settlement will be repeated in 2006-2007. Meaningful forward planning is very difficult with this uncertainty.
- **Freedom Flexibility & Responsibility** - these principles need to be fully imbedded in a new approach to police funding. There must be less dependency on government funding and an ability to raise funds locally to meet policing needs determined by the Authority and Constabulary.
- **Fairness** - achieving fairness is a complex task. The unfairness of current funding is considerable. In general the most rural police authorities levy an average Council Tax at Band D considerably higher than that for the most urban authorities. This reflects the unfairness of the grant formula and the fact that the sparsity element remains inadequately reflected despite the Rural Policing Fund. But, fairness goes far beyond this. Council Tax payers and the community need to see, understand and agree with the link between Council Tax increases, the effect on Police budgets and the impact on policing in the community.

## How should council tax best be reformed?

### Capping

The threat of capping should be removed, leaving responsible authorities free to make realistic decisions concerning their Budgets and Tax levels.

*"The threat of capping is just another feature of a centrally-dictated local finance system which, rather than protecting local people from excessive tax rises, actually limits local choices and puts increasing strain on local service provision, thereby distorting local sector choices and adaptability". Traversi/Esposito "Nothing to Lose But Your Chains" NEF*

### Council Tax reform

The current structure upon which Council Tax is based does not necessarily reflect the state of the property market in England, or changes that have taken place since 1993. The New Policy Institute has recommended a reform of bandings, and band to band ratios. The County Councils Network (CCN) has done some research to investigate this further, examining whether a fairer split could be achieved following the revaluation due to be implemented in April 2007. These findings are equally relevant to the Police Authorities. The research examined 3 possible changes:

- Simply revalue the 8 existing council tax bands
- Implement an area based council tax system
- Adding 2 new bands in the system

In assessing the possibilities for rebanding the CCN's conclusions were as follows:

- The revaluation exercise should not be seen as a way to increase the total amount raised from taxpayers; but as a means of improving, predictability, accountability, and reduce the regressiveness of the council tax system.
- Whilst an area banding approach may prove to be less turbulent and have less distributional consequences than a model based on a national approach, they were concerned that it might cause significant variations for individual local authorities and local taxpayers.
- There is concern that the introduction of lower band ratios and the presence of a lower band might cause yet further redistribution of resources e.g. from the South to the authorities in the North.
- Although area banding does provide some solution to converge regional discrepancies, it does not provide a solution to help households with low incomes such as the pensioners.

*Not in favour of LIT*

- Proposals to relate Council Tax to the ability to pay are likely to make the system considerably more complex, and it is doubtful how far such a system would benefit people on low incomes in any case.

*reform of CTB*

- It may be more favourable to revamp the Council Tax Benefit system, enabling those on low incomes to benefit more directly, both via the promotion of higher take-ups (a particular concern in Norfolk), and by raising savings thresholds.

There is still considerable support for the retention of Council Tax based on a reformed property tax. The Police Authority sees great merit in such an approach.

*in favour of a reformed property tax*

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

Central funding, distributed through the police funding formula, is a top-down process, and reflects the resources that central government is prepared to make available for policing. It cannot be related to local requirements and needs. Local funding, through Council Tax, should be directly related to local requirements and needs.

The current system completely distorts accountability. The direction of the Home Office towards greater centralisation, with the National Policing Plan determining priorities, and ring-fenced monies requiring competitive bids, means that spending priorities are dictated from the centre. The result is that local people are paying more, yet Police Authorities have less control over where the money is spent and accountability is blurred and confused.

More generally, government determined service levels and standards are seldom accompanied with proper recognition of the resources involved. These resources then have to be provided locally with resultant unacceptable and unjust increases in Council Tax. Not surprisingly, the Police Authority has fundamental concerns about current reality and perceptions on accountability.

The emphasis on marginal accountability in the current system does not facilitate a full understanding of the scale and nature of police spending. The Police Authority endorses the points originally made in the Layfield Report in 1976. This explained the importance of general 'accountability rather than the marginal accountability imposed by the current system.

**What other sources - including local income tax, reformed non-domestic rate and other local taxes and charges - could be used to raise supplementary revenue for local authorities? How would they work and what would be their advantages and disadvantages?**

In arguing for a change in the Balance of Funding this would only be acceptable to the public if there were a definite measurable reduction in the amount they had to pay in other taxes. The difficulty is which taxes, how this would be achieved, and would those paying local taxes necessarily be the beneficiaries of a reduction in central taxation?

Options:

#### Relocalised Business Rates

The Business Rate, or NNDR, is not a local tax - it was removed from local control in 1990. Police Authorities have no local autonomy in setting the NNDR. The valuation of business properties and the setting of the NNDR multiplier are entirely central decisions.

Under the present arrangements businesses are protected from local tax rises at the expense of Council Tax payers. Council Tax has risen by 37.5% in real terms since 1993/4 whilst the equivalent increase in the NNDR has only been 5.4% in real terms.

#### Benefits of relocalisation

- Most authorities would be able to raise at least 50% of their income locally
- There are no, or few added administration costs in relocalising the current NNDR
- Improved accountability through links with local business
- Attraction of business to an area should have beneficial effect on tax base and thereby income

#### Features required in a relocalised system

- RPI capping for local Business Rate multipliers should be abolished.
- Increases in local Business Rates could be limited by increases in CT rates.
- Council Tax billing authorities should have the power to introduce exemptions, thresholds and rates for different classes of businesses.

#### Local Variable Income Tax

One of the major options for change that have been proposed is the introduction of a Local Income Tax (LIT), sometimes known as Local Variable Income Tax (LVIT).

The main advantages of this are that it is one of the few options (apart from re-localisation of NNDR) that it likely to yield sufficient income to really address the Balance of Funding. There are concerns however regarding possible complexity, its relationship to Council Tax (some members of public may pay both, either, or neither), and overall the reaction of the public to a new additional form of taxation. The public would expect to see a reduction in other central taxes to counter balance this, and those benefiting from a reduction in, say VAT, may not be the same as those paying more via LIT.

#### Suggested strengths of LIT

- Arguments for are: buoyancy, progressiveness, ease of collection and administration, increases local autonomy
- National income taxes already finance local expenditure via RSG etc - LIT merely takes this a logical step further.

The design of a workable LIT system will need careful thought and discussion to resolve the technical issues, but this should not prevent serious consideration of this option. The Police Authority sees attractions in this option.

*in favour with  
considerable pliancy*

#### Would a particular combination work better than others?

In practice it is unlikely that Council Tax could be completely replaced. Concern from the public in recent years has been largely about the levels of increase, not the actual nature of the tax itself.

The ideal solution is, we feel, a combination of a reformed Council Tax system with the relocation, and reform of the NNDR (e.g. removing the inequitable link to GDP).

The other significant alternative of LIT needs careful consideration and considerably more research before it could be implemented. If it were to be introduced, it is likely to be as a supplement to CT rather than a replacement.