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Sheffield
City Council

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RK/SC/Corr
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Sir Michael Lyons
Lyons Inquiry into Local
Government Funding
Room 3/12
1 Horse Guards Road
LONDON SW1A 2HQ

Dear Sir Michael

Lyons Local Government Funding Inquiry

Thank you for your letter dated 8th April 2005. Please find attached our submission for the above.

Yours sincerely

Sir Robert Kerslake
Chief Executive



INVESTOR IN PEOPLE

The Lyons inquiry in to the financing of local government

Submission by Sheffield City Council

1. Context

1.1 Sheffield is England's third largest metropolitan authority. It is a unitary authority, meeting the needs of a population of some 513,000 people. The gross budget of the Council is £1.2 billion. The net budget, after allowing for income is £637m. Of this, some £165m is met through the Council Tax.

1.2 The vision of the Council is:

- To be among the best performing Councils, providing the best quality services in the country.
- To work in active partnership with the community to create a successful Sheffield with a good quality of life.

1.3 The Council therefore has a key leadership role to improve the city as well as ensuring the delivery of essential services. In both its leadership and service delivery roles, the Council works in active partnership with business, other public bodies, the voluntary and community sectors and the residents of Sheffield.

1.4 A citywide partnership, the Sheffield First Partnership, has been established to develop the vision for the city and oversee its delivery. This partnership has identified the 10 characteristics of a successful city. These are set out in Annex A to this submission but can be summarised by the twin aims of achieving greater prosperity and ensuring that all residents are able to share in the benefits brought by that greater prosperity.

1.5 The Government have increasingly recognised that effective delivery of its public service agenda can only be achieved through greater devolution from the centre. This is reflected in initiatives such as Local Area Agreements and Regional Allocation of budgets. Alongside greater devolution of budgets and responsibilities to regions and localities, the government are also looking to see greater engagement of local communities in the delivery of services and the regeneration of their areas.

1.6 Sheffield is willing to embrace both the devolution and community engagement agendas as part of its drive to improve the city and the public services provided within it. As an excellent rated authority under the Comprehensive Performance Assessment, it has already been given greater freedoms and flexibilities. It is also a pilot for the first round of LAAs.

1.7 As well as its role to improve the city, Sheffield also has a key role as part of its city region. Sheffield is identified as one of eight city regions within the Northern Way which will spearhead the improved economic performance of the North.

2. Fitness for purpose of the current financial regime for local government.

2.1 There are a number of reasons why the current financial regime is not fit for purpose:

- As a unitary authority, the Council is responsible for the delivery of a wide range of services, ranging from education to the environment. There are substantial benefits in having this wide-ranging role in the opportunities it provides to join up service delivery at a local level. Yet it does this within a very narrow tax base. Such an arrangement is inherently unstable and means that central government involvement at quite a detailed level is almost inevitable. The need for Government to provide additional resources to local government in the last two years is ample illustration of this point.
- The high proportion of its funds that are tied up in delivering core services such as education and care mean that its capacity to respond to local needs and priorities is constrained. This in turn reduces its work in active partnership, bringing in additional resources to address issues which are regarded by all partners as a priority.
- The narrow financial base of the Council reduces its capacity to play its leadership role on behalf of the city and city region in delivering major regeneration projects that are considered vital to the regeneration of the city and its surrounding area. It is over dependent on regional and national agencies and funding which in turn works against the Government's desire to devolve greater powers and responsibilities.
- There is little incentive in the current system to borrow to invest in the anticipation of future income benefits unless the Council is the direct land owner. This means that opportunities that could be taken up to increase economic growth happen more slowly or not at all.

2.2 These weaknesses in the current financial system don't just apply in Sheffield but their effect is perhaps more evident. For example:

- There would be a strong view in the city that greater investment in its highways would benefit both the economy and the quality of its neighbourhoods. However the capacity to do this within acceptable Council Tax increases is severely limited, due to the "gearing effect" on the Tax of an increase in spending.
- Greater recognition should, therefore, be given to environmental services when decisions are being taken on how the system of local government finance should work. These services (for example, highways, footpaths, parks and other public areas) are highly visible to most members of the community and are the ones that shape the public's perception of how the local council is performing.
- Major infrastructure projects, such as the extension of the Supertram to Rotherham are required by Government to have a 25% local contribution. This is not achievable through the Council Tax and means that such important infrastructure projects are dependent on a cocktail of regeneration funding that is very uncertain and demanding to put together.

- Sheffield has significant development opportunities that can be unlocked through land assembly and better access. In both America and Europe this is often achieved by borrowing in anticipation of increased land values and consequent additional income to the local authority. This option is not available to local authorities such as Sheffield.

2.3 The Government have recognised some of the weaknesses of the current system and taken steps to improve the position through initiatives such as Business Improvement Districts, Business Growth Incentives, and greater flexibility on charging for services. Valuable those these initiatives are, they still work at the margins rather tackle the core issue – the need to widen the local tax base.

3. Options for Reform

3.1 A local property tax is comparatively low in cost to collect and very hard to avoid. It also has the benefit of being a well established as a local tax that has a high level of visibility for local residents. Although it does not directly relate to people's income and therefore ability to pay, there is at least a link with the value of the main asset of those who own their house - the majority now of people who live in this country. The problem is not with Council Tax per se but with the increasing burden that it has been required to bear as a local source of tax income.

3.2 Regarding other aspects of Council Tax, research commissioned by SIGOMA examined, amongst a number of options, the effects of increasing the number of bands from 8 to 11. The results showed that increasing the number of bands does address some of the perceived flaws of the current council tax system, including those issues that cannot be fully resolved by merely revaluing properties.

Increasing the number of bands (in addition to revaluation) would result in a shift in the burden of standard council tax to high tax base/low needs areas and a (consequent) shift in government grant to deprived, low tax base areas.

3.3 We do not, however, support any move towards regional banding for Council Tax, for the following reasons:

- We share SIGOMA's concern that regional banding as proposed by some would mean that the potential shift in resources away from authorities with high tax bases towards those with low tax bases would be reduced.
- Such a move would also undermine the general principle in the current system that people living in properties of a similar value should pay the same level of tax for a standard level of service.
- Furthermore, many of the arguments for regional banding have been weakened by the continuing reduction in the regional gap in house prices.
- Finally, regional banding would involve judgemental decisions being made and, consequently, might lead to less clarity in the system and, possibly, unfairness as perceived by the Council Tax payer.

3.4 We also share SIGOMA's view that the existing council tax benefit system should be fundamentally reviewed to ensure that it really does protect the more vulnerable in our society.

3.5 The issue, therefore, is not the replacement of Council Tax but supplementing it with other sources of local tax income. The two main options for achieving this are returning all or part of the income from business rates to local control and the introduction of a local income tax. The Review will no doubt consider the relative technical merits of introducing a local income tax in more depth and there is therefore not a great deal to be gained in rehearsing these in this submission.

3.6 Whatever is decided on this issue however, there is a compelling argument for return all or part of the business rate to local control. It would:

- Broaden the tax base of local government
- Provide a source of revenue for which the infrastructure for its administration and collection is already in place and, therefore, for which implementation would be relatively inexpensive. It is important to note, however, that this option should be supported with appropriate equalisation to at least some extent (i.e. we do want it even if there is not full equalisation).
- Strengthen the connection between business and the community that they are located in and provide an opportunity for the two parties to further improve our dialogue on economic regeneration matters.
- Provide an additional incentive to local authorities to invest in activities to strengthen the local business base
- Enable local authorities to borrow against future anticipated income streams.
- Reduce the need for schemes such as BIDs that are relatively high cost to administer

3.7 There are a number of ways that this could be achieved but this is one potential model:

- A power to add a local supplement to the national business rate, all of which income would be retained locally. Alternatively, the current national rate could be fixed and all subsequent increases including inflation could be for local benefit.
- Fixing the rateable base so that any growth beyond that point was retained locally.
- Robust systems of consultation with the business community prior to setting the supplement with perhaps an agreed proportion of any supplement going towards priorities identified by the business community itself.

3.8 Given the importance that Sheffield and other cities attach to economic success it is hard to conceive that they would set any such supplement at a level which would damage their economy. It would be open to government however to consider additional safeguards in the early years of such a scheme.

3.9 A general concern about other, potential, additional sources of local taxation is that they should not be unduly costly or difficult to administer and collect. Examples of these other taxes are a local sales tax, which would be difficult to administer and collect, and a local tourist tax which would probably benefit only those authorities with significant tourist attractions. We do not consider, furthermore, that these other, smaller taxes could generate a significant amount of additional local revenue.

4. Conclusion

4.1 To enable major cities such as Sheffield to effectively play their proper role in leading the city through partnership and ensuring the delivery of a wide range of high quality public services, there needs to be a reform of local government finance. At the very least this should include return all or part of the business rate to local control. Failure to address this issue will mean that the current system of local government finance will remain unstable and cities such as Sheffield will be less able to play their full role in tackling regional disparities and spearheading the economic transformation of the North.

The following vision for Sheffield was drawn up by Sheffield First Partnership in its role as the high-level strategic partnership for the city following wide consultation.

Sheffield to become a successful, distinctive city of European significance with opportunities for all.

The city must have the following important features of a successful city:

1. A Strong Economy
2. A Well-Educated Workforce
3. A Vibrant City Centre
4. Attractive Successful Neighbourhoods
5. A Healthy Population
6. Low Crime
7. Good Transport Systems
8. A Good Cultural and Sporting Offer
9. Cosmopolitan and Inclusive
10. Well-Run, Sustainable and Well-Regarded