

Treasurers

Please ask for: Roger Kershaw
My reference: RJK/HMN
Fax No: 01823 356108
Direct Dial: 01823 355816
Email: rjkershaw@somerset.gov.uk



Sir Michael Lyons

Your reference:

5 May 2005

Dear Sir Michael

Somerset County Council's Written Submission to Lyons Inquiry

Thank you for the opportunity to respond to the Inquiry at this stage and take on board our comments as part of your review.

Somerset is typically rural with a few conurbations around Taunton, Yeovil and Bridgwater. The overall population of Somerset totals approximately half a million. As part of the South West region we suffer from high property prices with lower than average incomes – the ratio of average income to average house price for Somerset is 8.9 compared to only 7.3 for England & Wales (average).

Following the verbal evidence previously given by myself at our meeting at Bristol City Council, Somerset County Council's comments are as follows:

1. This Authority strongly supports the replacement of council tax with a local income tax. The arguments for this are widely known with the accepted benefits being: it creates greater public interest and in turn could increase interest in local politics and thus election turn outs; it would not be volatile year to year; it would be more accountable to taxpayers and it would create less variety within the gearing ratios.
2. This Authority has concerns about the overall variety within Local Authority gearing ratios and the impact these have on local accountability. For example, for 2005/6, within a small geographical region the ratio varies from 1.83 : 1 in Warwick DC whilst Birmingham Metropolitan DC is 5.10 : 1. This, surely is not an equitable way of funding and clearly demonstrates how a local income tax system would be fairer.
3. Over the last five years FSS has been increased by government without an equivalent increase in total grant. Government therefore recognises that spending by counties is above FSS and the only way of financing this spending is from increasing council tax in order to balance the books. This should be addressed by increasing total grant to ensure the yield needed from council tax does not have to increase disproportionately.
4. The Share of Assumed National Council Tax (SANCT) should be calculated in a transparent way, rather than being set by Ministers. This Authority objects to Resource Equalisation in the way that it has been applied somewhat judgementally to FSS control totals without providing any additional resources. SCC believes that the current distribution favours high spending and low resource authorities, does not take account of the policy decisions underlying such spending and is not based on any independent research. This adjustment

is extremely significant for SCC and has moved millions of pounds away from SCC to the London and metropolitan authorities.

5. Somerset residents have low incomes with high property values compared to the average of England & Wales, as follows:

	Average gross annual earnings, 2003	Average price of a residential property, Oct-Dec 2003	Ratio
England and Wales	£25,039	£182,920	7.3
South West	£22,988	£199,340	8.7
Somerset	£21,919	£194,581	8.9

Revaluation of properties for council tax purposes will increase the proportion of an individual's income that would have to be used to pay their council tax as their income is fixed. Somerset residents are paying out a greater proportion of their income in council tax than their counterparts in other regions of the country, for the same service. Council tax is less affordable in rural areas and a local income tax would be a fairer way of taxing individuals for local services.

6. The result of revaluation could mean that ODPM will expect SCC income from council tax to increase. This will increase the proportion of council tax raised and could as a consequence reduce the amount received in RSG & NNDR. In effect this will mean that individual bills will increase more than inflation but services will not be improved unless RSG & NNDR is maintained and inflated appropriately. Area banding would protect this.
7. Sparsity is not well recognised within the current FSS to the extent that density and deprivation are and we would urge this inquiry to increase the recognition given to the problems and associated costs with providing services to a rural county with scattered population. For example, Somerset has a total road length of 6829km (excluding motorways and trunk roads that are an additional 120km) to maintain. SCC's road length is 11th highest out of all English shire counties (34 in number). Another example is the level of public transport offered to Somerset residents compared to other authorities, but these areas of need are not adequately reflected by current sparsity factors. Why should Somerset residents pay more for a lesser level of service compared to other areas? Are we really suggesting that different levels of service be given to residents across the country, depending upon their address ie a postcode lottery?
8. Repatriate NNDR: Local business rates should be returned under local control. This will also protect them from being used for other purposes. For example, we have concerns over the implications of funding of Schools if the direct grant is implemented. Presently there appears to be a shortfall of some £1.6bn in RSG relating to Education Authorities and this will need to be met. We are concerned that NNDR could be used to plug this shortfall and therefore reduce the amount of NNDR in the pool available for distribution.
9. The balance of funding review should also aim to improve local accountability, as the Layfield Enquiry concluded, whoever is responsible for incurring expenditure should also raise the necessary revenue. Direct grants to schools (ie replacing passporting) would surely decrease the powers of local democracy.

In conclusion we believe that a change in the balance of funding by replacing council tax with a local income tax and returning business rates to local control will be fairer for tax payers and will assist them in identifying those services that are the responsibility of local government and engaging in them.

If you would like further information, or to discuss these matters further, please contact me.

Yours sincerely

Roger Kershaw
County Treasurer