

Submitted to inquiry J2418 105
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by hand
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Staffordshire County Council's initial submission to the Lyons Inquiry

Introduction

1. Staffordshire County Council welcomes this opportunity to submit its views to the Lyons Inquiry which it views as a very important piece of work. This initial submission focuses on the key issues which Staffordshire County Council believes the Lyons Inquiry needs to address. The submission is deliberately broad in its coverage to enable it to cover as many points as possible whilst keeping it to a manageable size.
2. The Council's Cabinet has not formally approved a Staffordshire submission to the Inquiry, but many of the issues highlighted in this initial submission document have been made in previous responses and submissions to the government as part of other work.

Pressing Issues affecting the present system of local government funding

3. The County Council believes the most pressing issues in local government funding are as follows:
4. **Balance of Funding** - The current imbalance between local and central financing distorts accountability and transparency through the impact of high Council Tax gearing. It also reduces local authorities ability to respond to local demands which undermines the value of effective local consultation.
5. **School Funding** – The County Council is very concerned about the proposals contained in the recently published consultation on reforming school funding. The paper proposes that schools are funded through a Dedicated Schools Grant. Staffordshire has always been against ring-fenced funding since it restricts our ability to react to local demands and priorities. Education is one of local government's most important service and we wish to be held accountable for the performance of our local schools. However, taking funding control away from local authorities we believed it will significantly reduce local authorities accountability. Staffordshire will prepare a full response to the consultation setting out our views.
6. **Local Taxation** - Council Tax is the only source of local finance available to authorities and it is not perceived to be a fair tax by local people. It has reached the limit of public acceptability as a result of consistent above inflation increases in recent years. The taxbase is not buoyant meaning that authorities have to increase it each year just to keep pace with inflation. The name "Council Tax" is also misleading since for many authorities it only pays for only a small proportion of their costs and the tax helps fund other public bodies such as Police and Fire authorities. We believe this may confuse local people.
7. **Business Rates reform** – There has been a lot of focus on reforming Council Tax but less on possible reforms to Business Rates. The proportion of council spending met by businesses has fallen over the past ten years as the Business Rates increases have been pegged to inflation whilst Council Tax rises have been above inflation. We believe that the Inquiry needs to recommend reform to the Business Rates system so that local businesses and local Council Tax payers are treated on a more equal basis.

8. **Pressure on the Revenue Grant Distribution System** – The current system creates a lot of pressure on the grant system since it has such a crucial role in funding authorities. Minor changes to data and formula can have a big impact on the resources authorities have available to provide services. We believe the Inquiry needs to consider ways of reducing the pressure on the system by examining its role.
9. **Use of ministerial judgement within the FSS formula** – The County Council is concerned about the degree of ministerial judgement currently being exercised within the system particularly in relation to adjusting ANCT class shares. This makes it difficult for authorities to predict their Formula Grant Allocation. We are concerned that it is being used to shift resources away from Shire Counties. This is clearly demonstrated through the way the 2003/04 Amending Report resulted in Shire Counties having £26 million clawed back when Shire Districts were unaffected.
10. **Improving stability and predictability of revenue funding** – We believe improving the stability and predictability of sources of revenue finance for local authorities is a key issue. We welcome the improvements that have been made in recent years such as grant “floors” and “ceilings”, grant methodology freezes and Spending Review announcements. However, we feel more can be done to help local authorities plan in the medium to long term. We would accept trading a little perceived fairness in the system for increases predictability
11. **Local priorities and responding to local demands** – In our view, the current system of local government finance restricts the extent to which authorities can respond to local priorities and demands. Authorities receive most of their resources via the Formula Spending Shares and obviously this cannot reflect particular local priorities. The only other main source of financing available is Council Tax which has already been pushed to the limits of acceptability meaning there is little scope to use it further. We believe this can reduce the credibility and impact of local consultation exercises since the Council will always be faced with difficulties in responding to demands for particular improvement projects.
12. **Resource and needs equalisation** – The current system of local government finance is based on some fairly basic yet important principles of resource and needs equalisation. We feel that this complex area needs to be thoroughly examined so that the interaction between the level of equalisation and the scope for authorities to raise more finance locally is better understood. We believe that, in order for any new system to be sold to the public, the government will want to be assured that there will not be large differences in the local tax burden businesses and local people would face in different areas.
13. **Simplifying funding streams** – We believe that there are too many grant funding streams and would support any proposals to simplify the system. The current system is complicated to manage and track and not particularly cost effective. We also wish to have a system which provides authorities with more freedom and flexibility to respond to local priorities.

Resolving these issues

14. The County Council does not have the solution to all these issues, some of which have been well documented and discussed for many years by politicians, councilors and finance experts. However, we do have a number of suggested reforms which we believe would improve the system. We recognise though that with any changes there is the potential to introduce new problems.
15. We believe that the Lyons Inquiry should recommend the following reforms:
16. **Shift the balance of funding** – In our view the Inquiry should recommend that the balance of funding is shifted so that local authorities raise more revenue locally. We support the Balance of Funding Review final report which concluded that there are strong arguments to support this move. Staffordshire believes that the current balance of funding distorts local accountability. We do not have a firm view on the “correct” balance of funding, but as a minimum we believe the balance should be shifted to be more of a 50/50 ratio by re-localising business rates (see below).
17. High Council Tax gearing means that there is not always a clear link between what we spend on services and what we raise in local taxes. We believe that this reduces our accountability to local people. In our experience, it is extremely difficult to explain to them why Council Tax has gone up by a higher percentage than the increase in our spending. The public will sometimes see it as the authority shifting the blame for their increase in Council Tax. The current imbalance can also make it difficult for the public to decide who is accountable for the standard of local services.
18. We do not see any benefit of the current imbalance towards central financing and reject any suggestion that it encourages and promotes efficiency.
19. **Reform and re-brand Council Tax** – Staffordshire believes that a property tax should remain the largest source of local finance for local government. Property tax is hard to avoid and provides a predictable and stable source of finance something which we value. We believe that Council Tax should be re-branded as a “Local Services Tax” to more accurately reflect the fact that it is used to fund a wide range of local services not all of which are provided by Councils. We feel this is necessary because of the widespread negative publicity surrounding Council Tax over the last few years.
20. We believe the new tax can be made fairer by substantially increasing the number of bands especially at each end of the current banding system to make it more progressive. Much clearer and more accessible benefit packages also need to be introduced so that those people with financial hardship can have better support.
21. A further reform of Council Tax would be the abolition of capping. We feel that this severely limits authorities flexibility in meeting local demands. Retrospective capping is also expensive.

22. **Re-localise business rates** – We believe that business rates should be re-localised which is the easiest way to create a substantial shift in the balance of funding towards locally raised revenue. Re-localisation would mean that authorities are far more accountable to local businesses. Local consultation would be more meaningful and it would mean that authorities would have to work more closely in partnership with local businesses. We think that over time relations would improve not deteriorate. Since authorities already collect Business Rates we do not see any practical problems with this change and it should not cost any more than the current system. The system could work by mirroring the Council Tax system with major precepting authorities precepting on billing authorities business rate collection funds.
23. We support the LGA's proposal that the grant calculation would build in an assumed national business rate multiplier and authorities would be free to increase or reduce their local rates in accordance with local demands. This would maintain the current level of resource equalisation built into the system which we believe is important.
24. Businesses are obviously concerned about the prospect of large increases in Business Rates if the inflation cap was removed and local authorities assumed control. There will be strong pressure for the government to reassure the business community. We believe there is a natural control already in that local authorities will be aware that if they set the increase too high business investment will reduce which will affect the local economy. However, we feel that consideration should be given to introducing a further control within the system so that authorities are required to link the increases with the increase in the Local Services Tax set each year. This would go some way towards reassuring the business community that they will not be faced with disproportionate increases. We would not support the principle of there being a nationally imposed cap since this has the potential to seriously reduce the benefit of the reform.
25. Re-localising Business Rates would increase the buoyancy of the local Taxbase since during periods of economic growth we would expect there to be a much larger proportional increase in the Business Rates Taxbase than in the Council Taxbase. This would be a real advantage to local authorities since presently the lack of buoyancy in the local Taxbase does restrict service improvements.
26. **Reform the Revenue Grant Distribution System** – Staffordshire believes that there are some steps which could be taken to improve the Revenue Grant Distribution System. We support the concept of three-year revenue and capital grant settlements and believe that these have the potential to have a large impact, especially since authorities would have far more notice of their grant entitlement.
27. We also believe that more work could be done to improve certain elements of the formula. We would accept a reduction in the perceived fairness of the formula if it provided us with more predictability. However, we reject the proposal that a very simple formula could be introduced based on just a few key indicators. Whilst we accept that a formula will never totally reflect individual spending needs, we do not think this is a valid reason for abandoning the current approach. Indeed if local authorities have more local sources of income then the pressure on the formula should reduce to some extent as authorities have more options to raise revenue locally.

28. We believe that the credibility of the system needs to be improved by taking two important steps. Firstly, ministerial judgement which shifts resources between areas should be eliminated. In our view this undermines the principle of having an objective formula based on detailed research and evidence. Secondly, the data in the formula needs to be as up to date as possible. Using Census data which is 14 years old seriously reduces the accuracy of the formula and seems odd given the amount of work which went into reforming the formulae two years ago.
29. We strongly urge the government to move away from announcing last minute funding injections to stave off high Council Tax increases as they have done so in the last two years. This funding should be built into the totals announced in Spending Reviews.
30. **Other forms of local taxation** – Staffordshire does not have a defined policy on possible new forms of local taxation. However, the Council would generally welcome new taxes which provided us with more options than at present. We believe that any possible taxes should be assessed against the following five criteria:
- How easy it is to predict the yield each year
 - How stable the yield is each year
 - How efficient the tax is, measured by comparing the yield with the cost of collection
 - How easy it is to collect and how hard it is for people to avoid payment
 - The extent to which an individual's ability to pay is considered
31. A Local Income Tax (LIT) is the tax most often discussed. CIPFA carried out very comprehensive research into this proposal for the Balance of Funding Review and we would refer the Inquiry to this piece of work. Staffordshire broadly supports the conclusions, especially that a LIT should supplement a reformed Council Tax rather than replace it. Our main concern over a LIT is the cost of implementation, especially given the pressure on the public sector to deliver efficiency savings. We also would worry that it would be difficult to predict the yield and that it has the potential to be unstable. It would also expose authorities to the prevailing economic climate which could create difficulties in times of recession since the costs local authorities face are unlikely to reduce.
32. There are many other local taxes which could be defined. Staffordshire wishes to support the work planned by the County Council Network to carefully consider the advantages and disadvantages of each before reaching a firm policy position on each. However, generally we would expect there to be little public support for giving local authorities lots of new tax raising powers given the distrust as a result of the recent Council Tax increases. We would also be against a very complex set of local taxes which are difficult and costly to administer. The lack of interest from local authorities in making use of the new discretionary charging powers contained in the Local Government Act 2003 shows that local government may not be too receptive to new tax raising powers.
33. Despite these concerns, we feel that it would be a good thing for local authorities to have tax options which would enable them to pick and mix in a combination which would suit their local circumstances best. We recognise that in order to do this successfully consultation processes will need to be improved so that authorities can demonstrate they are responding to local needs and priorities.