

Lyons Inquiry

Comments by West Sussex County Council

Introduction

The County Council welcomes the opportunity to put forward its views to the Lyons Inquiry.

The County Council has argued for returning the setting of business rates to local authorities. This view was put forward by the County to the Balance of Funding Review. The County argued that the high dependence of local authorities on funding from central Government is a significant factor in reducing local democratic accountability.

The current system of highly centralised funding results in local authorities being seen as agents for local delivery of national policies, with little discretion and unresponsive to local priorities. It results in no transparent link between local spending, levels of service provision and local taxation decisions. This also extends to business rates, where there is an absence of any clear link between the sums paid locally under the present 'national' system and local services.

Safeguards

The County Council recognises that business may have concerns over moving away from the national system of business rates, where the increase is linked to RPI. We consider that a number of safeguards can be incorporated in to any new system, to address these concerns. Such safeguards may include:

- Ensuring business rates could not be increased by a higher percentage than the increase in council tax for domestic properties. Hence, businesses could not be faced with a disproportionate burden being placed on them.
- A phasing in over a number of years of localised control over business rates.
- Significantly strengthened consultation arrangements. This is already taking place in many authorities that have enhanced their public and business consultation methods in response to best practice guidance from Government in 2002.
- Enhanced partnership working with business representatives, with more influence over spending decisions. This could potentially include delegated authority and budgets to strategic partnerships that include business representatives.

It is important that the issue is not simply seen as local authorities wanting to extend their control and using business as an extra source of revenue. The County wants to encourage strong links with local business, and ensure that the County's spending decisions are well-informed by the needs of businesses. Localisation of business rates would provide an opportunity to ensure strong links are in place and working, and ensuring all councils are attuned to business needs.

We recognise there are major dangers in simply imposing the change we suggest. We have therefore engaged partner organisations, such as business groups, in discussing the way ahead.

Resource Equalisation

The County Council considers that a change in the balance of funding would provide an ideal opportunity to reconsider the whole approach to resource equalisation. The County accepts the need for resource equalisation to overcome the difference in spending needs between authorities. However, there is a case for further research into the extent to which this should operate.

There are economic grounds, as well as reasons of clarity and accountability, for local authorities to retain a substantial part of the business rates levied in their own areas. Business intensive areas have particular needs, especially for adequate infrastructure. In West Sussex the transport infrastructure acts as a barrier to competitiveness and economic growth. A combination of retained business rate receipts and strengthened consultation mechanisms would provide a framework to use the resources to enhance the infrastructure and allow business to influence use of the resources. Businesses would see a clear connection between what they pay and the benefits received.

The Balance of Funding Issue and Dedicated School Grants

The County wishes to record its disappointment that Government did not await the findings of the Lyons inquiry before embarking on the new Dedicated School Grants (or DSG) system.

In 2005-06 our schools will spend around £340m but the County will receive only £179m in Revenue Support Grant (RSG) with a further £239m in redistributed business rates. Even if Government were therefore to take all the County's RSG and move it into the new DSG, it would have to find a further £161m. West Sussex will not be untypical. By implication, Government is therefore going to have to consider the role of business rates income in making good its promise to ring fence the funding for schools. Government will find it difficult to hand back total autonomy to local authorities over business rates when it needs a part of that income to sustain the new system of DSG.

The County considers that Government should have awaited the results of the Lyons inquiry before embarking on its proposed changes that will inevitably impact on what the inquiry is able to recommend. We would suggest the Lyons inquiry should comment on the Government's proposals in the context of their impact on the wider review undertaken by the inquiry.

A by-product of the DSG proposals may be a lessening of the 'gearing' issue which has plagued the transparency of local accountability. However, the case for relocalisation of business rates never rested on this point alone. The County still considers that it must be right in principle for local authorities to set business rates locally. Returning business rates to local control would restore a link between local authorities and the businesses in their areas. This will encourage closer co-operation and partnership working. The working environment between businesses and local authorities is far stronger now than in 1990, when business

rates were 'nationalised'. Relocalisation of business rates would recognise the progress that has been made in this area.

Reform of Council Tax

The County Council supports the retention of a property tax, as a major source of local revenue for authorities.

The County Council would not support any increase in the number of tax bands, unless such a change was coupled with recognition that house prices are not comparable between regions throughout the country. We believe the redistributive consequence on grant arising from a national system with an increased number of bands would be unacceptable to authorities in this and other regions. The average council tax charge per household is already higher in the south east than any other region and we could not support changes to the council tax banding system which exacerbate this situation.

Conclusion

The County believes that the narrow tax base combined with central prescription over many aspects of spending (such as the passporting regime) has led to confidence and accountability in local authorities being damaged. The findings of your inquiry are an opportunity to begin to redress this situation.

In principle, the relocalisation of business rates would have the following advantages:

- Strengthen the links between councils and businesses
- Promote closer co-operation and understanding to ensure local money benefits local business and the economy
- Enhance democratic accountability, as local stakeholders shape how locally raised resources are spent.

This can be done within a framework that provides safeguards on the level of increase for business.

West Sussex County Council
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