

LGA BRIEFINGS ON THE LYONS REPORT AND BUDGET

PORTFOLIO RESPONSIBILITY: RESOURCES

CABINET

12TH APRIL, 2007

Wards Affected

County-wide

Purpose

To inform Cabinet of the contents of Sir Michael Lyons' inquiry report and the implications for Local Government of the Chancellor's budget.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT the report be noted.

Reasons

The Lyons Inquiry sets out possible changes regarding the future of local government. The Chancellor's budget statement outlines the financial environment affecting amongst others local government.

Considerations

Lyons Inquiry into Local Government

1. In July 2004, Sir Michael Lyons was asked to examine the council tax system by the Deputy Prime Minister (John Prescott) and the Chancellor (Gordon Brown). The remit of his work spanned issues from the reform of council tax, to the balance of funding and possible options for future local taxation – including local income tax and business rates.
2. In September 2005, the Inquiry's remit was extended to consider the strategic role of local government and the devolution of control to councils. The inquiry was again extended, at the time of the 2006 pre-budget report (December 2006) in order to consider the implications for local government of the findings from the Barker [planning], Leitch [skills] and Eddington [transport] reviews.
3. Since the start of Sir Michael's work central Government has published their White Paper (Strong and Prosperous Communities), delayed council tax revaluation and transferred schools funding from Formula Grant to a ring-fenced Dedicated Schools Grant.

Further information on the subject of this report is available from David Powell, Head of Financial Services
on 01432 38317

4. The main issues relating to finance are:
 - The recommendation that a revaluation exercise be carried out;
 - Introduction of further bands at either end of the council tax scale;
 - Introduction additional funding streams by allowing councils to charge for waste produced, a tourist tax and an additional levy on business rates;
 - Calls for the reduction in the numbers of ring-fenced grants;
 - Scrapping of the Government's powers to cap council tax increases; and
 - Council tax benefit being an automatic entitlement, meaning residents no longer need to apply for it.
5. In his report, Sir Michael states that he feels that a tax based on property provides a "strong connection between the tax people pay and their residence in an area". He goes on to say that taxes on property reflect residents' financial stake in the community and its prosperity as well as an interest in local services and investment. Council tax is easy to collect and difficult to evade, tax bases are generally stable and predictable meaning that councils are able to plan with a greater degree of certainty.
6. Sir Michael supports the carrying out of a revaluation exercise, at the same time examining the structure of the council tax. He feels that, if the Government chooses not to revalue properties, over time the credibility of the council tax will be eroded as it is levied on an increasingly out of date tax base.
7. The report suggests introducing a new band at the bottom of the scale as well as two more at the top of the scale where he says there is a clear link between property value and 'ability to pay'. Sir Michael also recommends that the Government consider introducing separate bands for central London, to reduce turbulence caused by any revaluation.
8. The Inquiry's report also recommends the removal of Council Tax capping, stating that it does not allow the pressures facing local authorities to be understood and fails to recognise the role that central Government plays in creating such pressures.
9. The local government White Paper talked about the confusion amongst the general public surrounding the responsibility for services. Sir Michael reiterates that point, adding that the public should be explained the costs involved in service provision in order that they understand and are sympathetic to the pressures faced by councils.
10. To improve the take-up of council tax benefit (CTB), thus making it more affordable to those in the poorest households, Sir Michael suggests that the name be changed from council tax *benefit* to *rebate*. The report also suggests that Government needs to examine the framework of CTB and remove the administrative barriers to people claiming it.
11. Michael Lyons proposes that CTB be delivered through the Pension Service. Eventually Sir Michael envisages council tax bills being issued to all households

net of any rebate, with a responsibility to inform the local authority where details are incorrect.

12. Sir Michael believes, that even with a full take-up of benefit some households will still face a high council tax burden. To address this he suggests the eligibility criteria be examined, possibly through the lowering of savings and earning thresholds at which households become eligible for CTB.
13. The report is not recommending a local income tax be introduced at this time, merely pointing out that it remains an option for future governments.
14. The report states that over a quarter of councils already receive more funding through charges than through the levying of council tax. The report suggests that Government allows local authorities to charge for domestic waste collection, as a means to manage costs at the same time as reducing waste. Again, Sir Michael is not recommending changes to the charging framework, he does however propose the powers to trade and charge be extended to all authorities (not just 'best value' authorities).
15. In his final report Michael Lyons expresses his opinion that the lack of transparency in the current finance system is a clear barrier to accountability. Sir Michael acknowledges the difficulty in assessing spending pressures but he says the introduction of the four-block model does not lessen the problem.
16. Sir Michael also criticises the Government for implying that the public should be able to expect the same high level of service throughout the country – unlikely to be an element of a locally responsive system. He calls on central Government to stop making national promises for locally delivered services.
17. The Lyons report recommends that the transparency of the current system be improved and that local and central government should agree, in writing, what local authorities are expected to deliver and how it will be funded. Sir Michael also calls for an independent body (possibly working with the Audit Commission) to assess the impacts of new burdens on local authorities.
18. The report states that local authorities are being prevented from performing their full role as 'place-shapers' partly because of the inflexibility when it comes to managing budget pressures and spreading the burden of local taxation.
19. Sir Michael also attributes part of this inability to respond flexibly to central Government to their hold over a range of local public services. This hold has been exercised through the increased use of performance management and target-setting
20. Currently a large proportion of local government funding comes from specific grants, which come accompanied by expectations for their use and in some cases ring-fencing of grants. The recent introduction of the Dedicated Schools Report (DSR) has reduced authorities' abilities to respond and manage priorities and pressures.
21. Local authorities have a limited share in the growth of housing and business tax bases. Sir Michael feels that, given their role in fostering economic prosperity and housing supply, local authorities should see more of an immediate incentive, motivating them to improve their 'places'.

22. Sir Michael supports schemes such as LABGI, although calls for a reform of the current system to give a more transparent and long-term scheme. He also feels that there are opportunities to introduce incentives into the grant system, although not in its current four-block model form.
23. Sir Michael's Inquiry has concluded that the re-localising of business rates is not currently an appropriate way to raise additional funds for local services. The fact that 70 authorities would be levying business rates only to export them to another authority removes the link to the local services.
24. The report talks about the two kinds of efficiencies – managerial and value for money. He recommends that the Audit Commission establish a new Use of Resources measure in performance assessment to gauge how well authorities are meeting local needs which is often overlooked in the value for money arguments and discussions.
25. Although this was not part of Sir Michael's remit he does still highlight that past experience has shown that reorganisation is often not the cure-all for problems surrounding accountability and efficiency. He does, however, support the improved joint working as outlined in the White Paper.
26. Sir Michael Lyons highlights the clear need for reform in order to meet the future pressures that will be faced in adult social care provision. He recommends an open debate of the challenges faced and the questions raised by them. This debate should not just be between central and local government but must also include the views of service users, carers and the third and private sectors. As mentioned above, central Government must not make any "national promises" about the future of adequate social care without being sure they can fund it.

Budget 2007

27. The budget confirms that current spending will increase by an average of 1.9% per year in real terms. It also confirms that 3% per year efficiency savings across central and local government will be met and cash releasing, and that the total efficiency savings across the public sector will amount to £26 billion.
28. The budget announced that following the £3 per tonne increase in the standard rate of landfill tax from £21 to £24 per tonne in April 2007, it will increase by £8 per tonne each year after that.
29. Spending on education in England will rise from £63.7 billion in 2007-08 to £74.4 billion in 2010-11, meaning an average annual spending increase of 2.5% in real terms from 2007-08. Funding per pupil in the maintained sector will rise to £6,600 by 2010-11. This extra funding should allow for more personalised teaching and learning.
30. In the budget statement the government also responded to the Lyons' Inquiry as follows:
 - It will set out a clear target to reduce specific grants and ring fenced funding and examine the scope to minimise complex and time-consuming reporting and data provision as part of the CSR.
 - The Government will examine how the local government grant system gives local authorities greater rewards for delivering increased economic prosperity

in their areas, through reform of the Local Authority Growth Incentives (LABGI) scheme and will bring forward proposals before the summer.

- The Government will continue to use capping powers over the coming years to ensure that council tax rises are affordable.
- The Government also remains committed not to revalue council tax for the lifetime of this Parliament given the disruption to individuals and families that such change might cause. In the absence of revaluation it is not feasible to change the banding structure of council tax.
- The Government will consider the wider proposals on Council Tax Benefit in light of practicalities and affordability alongside priorities for the tax and benefit systems as a whole.
- The Government does not intend to introduce a tourist tax.
- The Government will modernise the empty property relief scheme, which reduces the duration of the existing empty property relief to 3 months for all properties and 6 months for industrial and warehouse properties. Complete exemptions will be awarded to charities.

Risk Management

The budget statement raised issues affecting local government and these will need to be factored into Medium Term Financial Plans.

Alternative Options

There are no alternatives.

Background Papers

- Budget 2007 – LGA Briefing
- Lyon Inquiry – LGA Briefing